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Monday December 16 1991

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SOUTH AFRICA
Forging a new constitution
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World News

Death toll of 470 feared as ferry hits Red Sea reef

Up to 470 people drowned when a ferry packed with Egyptians returning from Saudi Arabia hit a Red Sea reef and sank in a storm off the Egyptian port of Safaga.

The ferry was en route from the Saudi port of Jeddah to Suez. Rescue services did not reach the area until dawn because of the weather.

IRA bombs gallery
The Irish Republican Army stepped up a pre-Christmas campaign of damage and disruption in Britain with a fire-bomb attack at the country's best-known art museum, the National Gallery. Page 12

Honecker refusal
Chile will not surrender former East German leader Erich Honecker from its embassy in Moscow despite a formal request from Bonn. Chile's interior minister said he should go to another country.

Cuomo to decide
Governor Mario Cuomo of New York will probably decide this week whether he will be a candidate for the US presidency next year. He must file by Friday for the first serious primary race. Page 2

Mount Cook avalanche
A huge avalanche virtually wiped out the east face of Mount Cook, New Zealand's highest mountain. Thousands of tonnes of rock and ice slid four miles down, leaving a gash two miles wide near the summit of the 12,349ft peak.

Israel charges police
Israel has charged 10 members of the Jerusalem police minorities branch with criminally assaulting Arab suspects.

Philip Morris banned
The Italian finance ministry took the unprecedented step of banning sales of Philip Morris cigarettes in Italy for a month as a sanction for excessive contraband sales of some brands. Page 4

Energy charter ready
All 15 republics of the old Soviet Union, and the enfeebled central government, will sign the European energy charter in The Hague tomorrow. Page 4

ANC power predicted
African National Congress secretary-general Cyril Ramaphosa predicted that the movement would take power in South Africa within two years. Page 3; Background, page 16

Action on Lockerbie
Libyan leader Muammar Gadaffi has apparently decided to summon his General People's Congress to discuss Western demands for extradition of two suspects over the 1988 Lockerbie airliner bombing.

Walesa's promise
President Lech Walesa promised to bring to justice those responsible for crimes committed under martial law imposed by Poland's former communist rulers a decade ago. Coalition talks hit, page 2

Phnom Penh frees 1,000
The Phnom Penh government says it has freed over 1,000 prisoners since the Paris peace treaty formally ending the Cambodian civil war was signed on October 23.

Medical workers die
Two medical aid workers, a Belgian and a Somali, were shot dead in the strife-torn Somali capital of Mogadishu, the Red Cross said.

Jews protest at Wagner
Jews who survived the Nazi holocaust protested at reports that the Israel Philharmonic Orchestra plans to drop a 50-year-old ban on music by Richard Wagner, Adolf Hitler's *favourite composer*. Page 3

Business Summary

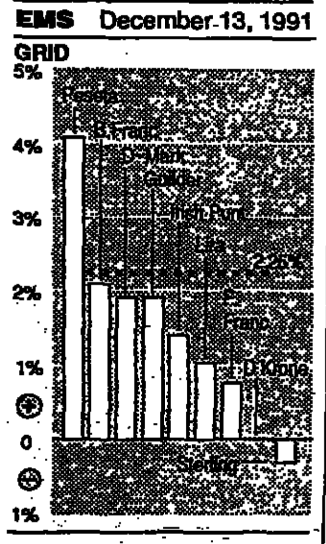
SEC pressed by Congress over Lloyd's investigation

The US Securities and Exchange Commission is under pressure from Congress to disclose progress of its investigations into Lloyd's of London.

Congressman John Dingell, chairman of the House Energy and Commerce Committee, wrote to Richard Breeden, chairman of the SEC, requesting answers by today to a number of questions. These have an important bearing on a legal action being taken in New York against several hundred businesses and individuals by 89 US-based Names.

***EUROPEAN** Monetary System:* Tensions continued to ease within the ERM last week as the D-Mark weakened on the *growing* unrest in the Soviet Union. Sterling remained the softest currency within the system but closed the gap on *the peseta after Norman* Lamont, the UK chancellor, ruled out a devaluation. Currencies, Page 27

EMS December 13, 1991



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

UK economy: Evidence that the recession will continue well into 1992 after a "tough start" to the new year was presented by the Confederation of British Industry. Page 12

ABP, big Dutch civil servants' pension fund, is to inject more than Fl 2.5bn ($1.4bn) into Rodamco, Dutch property investment group, in return for a 12.5 per cent stake and holdings of roughly 20 per cent in three of its non-listed subsidiaries. Page 13

MAHO, leading German machine tool group, reported an annual net loss of DM17.3m ($11bn), against a profit of DM14m previously. Page 15

GERMAN markets: Pressure *for tougher* regulation is mounting following the launch of a new investigation into Frankfurt brokers over alleged *tax evasion. Page 13*

CARGILL, top US grain company, has approved the creation of an employee stock ownership plan (Esop) that will hold between 10 per cent and 30 per cent of the company's common shares. Page 15

INTERNATIONAL Air Transport Association (Iata) has raised its minimum estimate *of airline losses* on *scheduled* services this year, to at least $3.7bn. This is $200m higher than his end-of-October estimate. *Page 4*

THIRD *World debt:* The poorest African borrowers urgently require more generous debt relief from official creditors, the World Bank says in its latest assessment of third world debt trends. Page 3

James Baker arrives in Moscow with specific plans

US move to safeguard Soviet nuclear arsenal

By John Lloyd in Moscow and Lionel Barber in Washington

MR James Baker, US secretary of state, arrived in Moscow yesterday carrying specific proposals to safeguard the Soviet nuclear arsenal, according to *US officials*.

The plans, to take account of the disintegration of central power in the Soviet Union, call *for the elimination of some* weapons, concentration of the remaining warheads in fewer sites and curbs on nuclear proliferation.

Mr Baker will present the plans in his talks this week with republican leaders, including President Boris Yeltsin of Russia and President Leonid Kravchuk of Ukraine. "We want to settle on a concrete and specific plan with some urgency," said one US official.

US rethinks its Soviet stance ....Page 2
Editorial comment..Page 10
State bank declared bankrupt ....Page 12

The Bush administration has watched the break-up of the Soviet Union with mounting alarm. Fears rose as a result of the latest power-struggle between Mr Yeltsin and embattled Soviet President Mikhail Gorbachev, as both vied for the support of the Red Army.

Mr Baker will press the republics to preserve central command and control over nuclear weapons, whatever the fate of Mr Gorbachev. He will also, according to US officials, urge Ukraine and Kazakhstan to clarify earlier statements which suggested they would like to assume responsibility for nuclear warheads on their territory.

Mr Andrei Kozyrev, the Russian foreign minister, said yesterday that the old technical mechanisms for central command of nuclear weapons would remain, but he suggested that a joint council of the nuclear-armed republics of Russia, Ukraine, Belorussia and Kazakhstan might be created to provide for their political role on nuclear policy.

As Mr Baker flew into Moscow, Mr Gorbachev, who has been under mounting pressure to resign as the Soviet apparatus disintegrated around him, attempted to cling on to some form of role for at least a few more weeks.

However, it became clear over the weekend that his role as commander-in-chief of the armed forces had been largely eroded and that his chances remain slim of playing a leading role in the Commonwealth of Independent States – formed by the three Slav republics of Russia, Ukraine and Belorussia a week ago as a successor to the old centre.

Mr Yeltsin met Marshal Yevgeny Shaposhnikov, the Soviet defence minister, on Saturday night to discuss military struc-

Continued on Page 12

James Baker in Moscow last night with Russian foreign minister Andrei Kozyrev

European pact in doubt after court ruling

By David Buchan in Brussels

THE HARD-WON agreement to merge the European Community and the European Free Trade Association will have to be renegotiated after a declaration by the European Court of Justice that the plan to set up a new court would contravene EC law.

Later today, the 12 EC foreign ministers and its executive Commission will discuss ways of altering agreement to form a 19-member European Economic Area (EEA) to meet the court's complaints.

But it may be hard to vary the accord in a way that would be acceptable to the seven member countries of Efta, which reached agreement with their EC counterparts on the EEA in late October. Failure to sign, and put into effect, the arrangement would almost certainly accelerate further applications by Efta nations to join the Community.

A statement by the European Commission yesterday said the 13 judges from the European Court of Justice (ECJ) had fundamental objections to the establishment of a parallel European Economic Area Court. Under the agreement, this court would comprise five judges from the European Court of Justice and three from Efta, and would be responsible for settling disputes over interpretation of EEA law, the core of which would be EC law and directives.

"The Court believes this jurisdictional mechanism is incompatible with the Treaty of Rome, and that it would not be sufficient to modify the legal base of the [EEA] accord to remedy this incompatibility," the Commission statement said.

The Luxembourg-based European Court of Justice has always insisted that it has the sole right to interpret Community law. But, in its 52-page opinion on the EEA deal, it says there is a danger that the EEA court would effectively pre-empt it ruling on matters of EC law, on which EEA rules will be so closely modelled.

Its other complaints centre on the uneven legal effect of the new arrangements. It notes that EEA court rulings would have more impact on Efta countries than EC states, where the supreme legal authority would still be the European Court. On the other hand, when national courts seek advisory rulings from the European Court, courts from Efta states would not be obliged to heed such rulings, whereas national EC courts would have to obey.

The European Commission said last night it remained keen on the EEA. With a few transitional exceptions, the EEA would extend from the start of 1993 the EC's free movement of goods, capital, services and labour to the Efta states – Austria, Switzerland, Sweden, Finland, Norway, Iceland and Liechtenstein. The new single market would total 380m people.

But the European Court has now posed governments a potentially awkward choice. At one extreme, the EC might insist on dropping the idea of an EEA court altogether, so that Efta countries would have to accept undiluted EC legal jurisdiction.

At the other extreme, EC governments could decide to overrule the court, but this would require an inter-governmental conference of the kind that finished last week in Maastricht.

Worried UN agrees to send monitors to Yugoslavia

THE United Nations Security Council yesterday voted unanimously to send UN monitors to Yugoslavia and also "strongly urged" member countries not to take any measures which could worsen Yugoslavia's undeclared civil war, write Laura Silber, Quentin Peel and agencies.

The wording of the resolution reflected the concerns of Mr Javier Pérez de Cuéllar, the UN secretary-general, and several western governments, including the UK, France and the US, that Germany's stated intention to recognise Croatia and Slovenia could lead to an upsurge in violence.

Mr Hans-Dietrich Genscher, German foreign minister, repeated yesterday that Bonn would recognise the breakaway republics, despite the UN's misgivings.

The German press agency DPA said Bonn would formally recognise the republics at its cabinet meeting on Thursday.

The Security Council vote, which could pave the way for a 10,000-strong UN peace-keeping force if an effective ceasefire can be arranged, came only hours before what is expected to be a heated debate on the recognition issue by European Community foreign ministers, meeting in Brussels today.

In a last-minute attempt to influence the EC debate the Serbian government again warned Germany at the weekend that recognition would lead to further violence. Mr Zeljko Simic, an adviser to Serbian President Slobodan Milosevic, said: "The situation will become worse. It will immediately stop the peace process, it will be the end of The Hague [peace] conference [brokered by the EC] because if you recognise Slovenia and Croatia, you destroy Yugoslavia."

German insistence on prompt recognition faces considerable resistance from several other EC countries, including Britain and France. While accepting that recognition for the breakaway republics is inevitable, they insist the timing must be right and the fears of other republics such as Macedonia and Bosnia-Hercegovina must be listened to.

A western diplomat based in Belgrade said: "The unconditional and immediate recognition of Croatia could spur the federal army to step up its assaults on Osijek and other east Croatian towns". Diplomats are also worried that recognition will lead to an outbreak of violence in Bosnia-Hercegovina.

However, this view is questioned by critics of Serbia's undeclared war on Croatia. Mr Milos Vasic, a Belgrade journalist, said: "The Serbian threat that recognition would mean an all-out war is an empty threat."

Danger of army with nowhere to go, Page 2

French may create hi-tech giant out of state groups

By William Dawkins in Paris

FRANCE is considering a reorganisation of state-owned high technology companies to create a public sector giant modelled on Siemens, the privately-owned German electronics and engineering group.

The scheme, likely to be unveiled in the next few months, is being promoted by Mr Dominique Strauss-Kahn, industry minister, with the support of Mrs Edith Cresson, the prime minister.

"We do not in France have a group like this. We need in the future to create a structure as powerful as a company like Siemens," said Mr Strauss-Kahn. Details and technical feasibility have to be worked out before the plan can be presented to President François Mitterrand, he said.

The starting point is to create a single high technology group based on electronics, the nuclear industry and biotechnology, by partial or full mergers of the French state-owned companies in these sectors.

Mr Strauss-Kahn would give no details of which companies might be involved and emphasised that the project was at an early stage. However, it is already well known that the government would like France Telecom, the profitable and cash-rich telecommunications operator, to increase its industrial links with Groupe Bull, the loss-making computer group, and with Thomson, the consumer and defence electronics business whose semiconductor unit continues to require huge investment. France Telecom owns 17 per cent of Bull and 13.9 per cent of Thomson.

The Commissariat à l'Energie Atomique nuclear energy agency and its fuel processing subsidiary Cogema would also be candidates for consideration in the reshuffle.

The reorganisation was foreshadowed last week by Mrs Cresson when she told a meeting in Montpellier that the government was "grappling with the key industries" because it was necessary "to reflect on the way in which they should be organised or reorganised". The proposal suggests a change in the government's recent policy of reducing industrial intervention.

Mr Strauss-Kahn explained that the aim was to encourage "synergies" between the companies involved. In particular, the different subsidiaries of such a giant would respond to different business cycles, so that profits in one could cover losses in another. The equity capital of the mega-group would be available to French and foreign corporate investors. This would be done in accordance with European Community competition rules, Mr Strauss-Kahn said.

"It is quite simple. We are asking ourselves what can be done so that in the domain of high technology there exists a peak European group."

Industrial stalemate, Page 4

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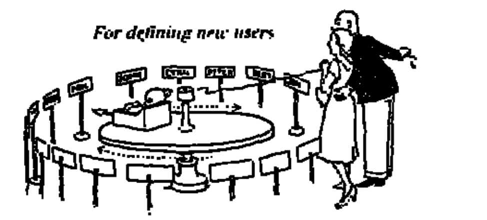

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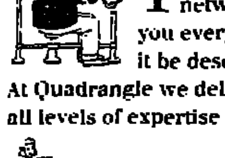

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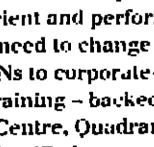

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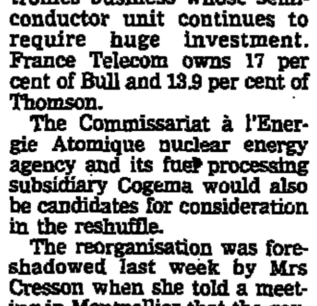
THE MONDAY INTERVIEW

John Wakeham, UK energy secretary, is an ardent Thatcher supporter. When she first came to power, Britain's energy industry was still ruled by the archaic structures of the past. Now, though a free market *in energy may still be* years away, at least a start has been made. Page 32

FT SURVEYS THIS WEEK



1992: THE EUROPEAN MARKET: The Maastricht train moves on down the track. *Wednesday's survey.*

Yugoslav forces may turn their attention to Bosnia-Hercegovina

Danger of army with nowhere to go

By Judy Dempsey in Zagreb

WHETHER Germany, along with some other European governments, recognises Croatia and Slovenia this year, few officials in Zagreb believe the fighting will stop. Indeed, they argue that the Yugoslav federal army and Mr Slobodan Milosevic, the president of Serbia, will turn their attention to the republic of Bosnia-Hercegovina.

Officials in this ethnically-mixed republic of Moslems, Serbs and Croats have repeatedly asked the EC to send more monitors, and the UN to send peace-keeping forces to preserve the peace and contain the war. Without this assistance, they fear for two reasons that the fragile peace could be rapidly undermined.

First, as the federal army withdraws from its barracks in Croatia under the terms of the UN ceasefire, all its equipment, military hardware, and personnel is transferred to Bosnia-Hercegovina. Second, Mr Milosevic continues to use the army to carve a greater Serbia out of not only Croatia, but also Bosnia-Hercegovina.

"We are living on a time bomb. We cannot control the movements of the federal army in Bosnia," says Mr Rusmir Mahmutcehajic, the republic's deputy prime minister.

In this context, the EC, and the UN, have yet to address one of the central questions concerning the civil war in Yugoslavia: how to stop the federal army.

"Something must be done to stop the army. The armed Chetniks [nationalist Serbs], who already control a third of Croatia, would be weakened if they could no longer rely on the army for support," says Mr Ante Cicin-Sain, head of Croatia's central bank.

Mr Hido Biscevic, editor of Vjesnik, Croatia's main daily, says the behaviour of the federal army "is not a sign of power, but a sign of helplessness".

"From the beginning, the Hague peace conference on Yugoslavia should have adopted a two-pronged strategy. It should have sought a political solution to the crisis in parallel with a military solution. The army had to be given some opportunity to retreat," he explains.

But the problem facing UN and EC diplomats is that the army is out of political control. Because Yugoslavia no longer functions as a state, the army's only protector is Mr Milosevic. But the interests of the army and the Serbian leader do not always coincide.

When the army attacked Slovenia on June 25, it was "defending" Yugoslavia's territorial integrity. Slovenia and Croatia opted for independence because they did not want to live in a post-communist Yugoslavia dominated by Serbia.

Apart from the ideological standpoint of the army, there was also the question of its privileges. "As Yugoslavia falls apart, the army has had nowhere to go to. That is another reason why the communist generals wanted to hold on to the federation. When this failed, they moved closer to Serbia for its protection," explains Mr Biscevic.

For his part, Mr Milosevic has used the army. Until last June he was, like the army, determined to hold a Serb-dominated federation together. But when he saw how the federation was collapsing, he used the army to help carve out a new and smaller Yugoslavia, dominated by Serbia.

Backed by General Blajoge Adzic – a Serb who harbours resentment against the Croats because his family was killed during the Second World War by Croatia's Nazi-backed Ustasha movement – and by nationalist Serb rebels in Croatia, Mr Milosevic has turned around the aims of the war in Yugoslavia. It is no longer an ideological struggle between secessionists and communist federalists. It is a war between the nationalities.

Since June, the army has assisted the Serb rebels – a small minority of the 560,000 Serb community in Croatia – by bombarding and destroying many towns and villages in the republic. As the local inhabitants flee, these places are taken over by Serb irregulars.

"The same could happen in Bosnia-Hercegovina," says Mr Mahmutcehajic. "That is why we need the UN to come here."

If UN troops are sent to Bosnia, and even to the southern republic of Macedonia, the federal army will be pushed back into Serbia. At that point, Croat and Serb liberals argue that Serbia could become a military dictatorship, or Mr Milosevic could use Europe's fifth largest army to prop himself up as the most powerful force in the Balkans.

A Croatian woman arrives for Sunday mass at the church in Sunja, damaged during heavy weekend fighting.

Germans instinctively back self-determination

By Quentin Peel

DIPLOMATIC recognition of Croatia and Slovenia has been taken for granted in Germany for months. The only question has been when and how it would happen.

Support for the breakaway republics of Yugoslavia crosses the boundaries between all the main political parties. The media also present an almost totally one-sided picture of Serbian aggression and atrocities against the freedom-bound Croats.

The backing for Croatia (Slovenia is not in dispute at all) is perhaps most fervent in the Roman Catholic strongholds of Chancellor Helmut Kohl's Christian Democratic Union (CDU) and its sister party in Bavaria, the Christian Social Union (CSU). At the same time, there is overwhelming support in the Free Democratic party (FDP), where Mr Hans-Dietrich Genscher, the foreign minister, remains the dominant figure, and in the opposition Social Democratic party (SPD).

Perhaps the most important factor is the belief in the right of self-determination of peoples, rather than the alternative principle contained in the Conference on Security and Co-operation in Europe Treaty – the preservation of existing borders. The great majority of Germans believe they owe the unification of their own country to the right of self-determination; so every other would-be independent state should enjoy the same.

And yet the German government, at least, has been far more hesitant in recognising the right to self-determination of the various ex-Soviet republics than in urging recognition of the ex-Yugoslav republics. For the Soviet Union, both personal sympathy and the fear of uncontrolled disintegration dictate a long and lingering support for President Mikhail Gorbachev and the central authorities.

The second factor is the Roman Catholic church, and the strong ties it has with the Catholic churches in both Slovenia and Croatia. Many in the CDU and CSU see the republican governments there as natural future partners in the European Christian Democratic movement. As soon as civil war broke out in Yugoslavia, the Catholic bishops in Germany spoke out strongly in support of their embattled fellow believers there.

Linked to that is the presence in Germany of 700,000 Yugoslav migrant workers, an estimated two-thirds of them are from Croatia. The missions of the Croatian Catholic church in Germany act as national and cultural centres for them. The church has been the prime organiser of regular youth festivals in Frankfurt, designed to foster Croatian culture, music, sport and national pride, as well as Christian belief.

What is most difficult to assess is where historical experience fits into the pattern of German support and sympathy for the two breakaway republics. On the one hand, it is obvious that many Germans have forgotten the wartime alliances of the Balkans, when Croatia lined up with Nazi Germany, and the instant Serbian suspicion of a Germany-Croatian axis.

Mr Kohl had to remind his audience in the German Bundestag two weeks ago that Yugoslavia was one of those places in Europe where German soldiers could not be sent – even in a peace-making capacity – because of the historical bitterness left by the Second World War.

And yet in spite of that historical forgetfulness, it is almost as if the sympathy for Croatia, rather than Serbia, in the conflict is instinctive. All the evidence of screen and print and politicians confirms that Serbia is the aggressor. Few want even to ask if there is another side to the story.

Kohl urges unity in country and party

By Quentin Peel in Dresden

CHANCELLOR Helmut Kohl of Germany yesterday launched an urgent appeal for solidarity between east and west – both in the united Germany, and in his own embattled political party, the Christian Democratic Union (CDU).

He warned that "campaigns of envy" would do nothing to improve the standing and competitiveness of Germany in the international economy, and urged moderation in wage demands.

In a fighting speech to the annual congress of the CDU, senior partner in Germany's ruling coalition, he voiced his fears of rising Japanese competition at a time when Germany was preoccupied with its own problems of unification.

"Are we really doing enough to ensure that the environmentally friendly and technically advanced motor car of the year 2000 will be built in Germany?" he asked. "It gives me pause for thought that German car exports are losing ground in the US, while the Japanese are steadily gaining."

Citing the massive financial contributions made by the west German economy to the recovery in the east – far more than DM100bn (£35bn) a year in the 14 months since unification – he urged easterners to be patient in rebuilding their shattered economy.

He warned that wage pressures in both halves of the country threatened the stability of the D-Mark. "Everyone must recognise the close relationship between insuring new jobs and the stability of our currency."

As for the CDU, torn by rivalries between eastern and western wings, he appealed to both sides to show restraint in building a united party.

While defending the campaign against leaders of the old CDU in East Germany as a "renewal of the party", he insisted the easterners alone should put their own house in order. Last night, his policy of reconciliation and renewal faced a test with the election of Mrs Angela Merkel, one of the newcomers to the eastern party, as deputy leader of the national party. She was Mr Kohl's choice, so abstentions or votes against her will be seen as a clear indication of the unhappiness in the east.

Polish coalition talks hit

By Christopher Bobinski in Warsaw

PROSPECTS for the formation of a Polish government darkened over the weekend as a second political party dropped out of negotiations to form a five-party coalition government.

The departure of Mr Leszek Moczulski's nationalist Confederation for an Independent Poland (KPN) closely followed last week's defection of the Liberal Democratic Congress (KLD) party led by Mr Jan Krzysztof Bielecki, the former prime minister. Both parties were needed to give a parliamentary majority to Mr Jan Olszewski, whose attempt to form a centre-right coalition now appears hopeless.

Mr Olszewski, a former Solidarity lawyer, was designated prime minister despite strong opposition from President Lech Walesa. He has faced an uphill struggle to form a government because the first post-war democratic elections on October 27 produced a fractured parliament with 29 parties representing a wide spread of political and ideological views.

Mr Olszewski was due to present his proposed cabinet to Mr Walesa today before seeking parliamentary approval on Wednesday. In a television interview he indicated that he had not given up hopes of forming a government but was looking for support beyond the ranks of the original five-party coalition.

The main support for Mr Olszewski's attempt to form a government has come from the Christian Democrat Centre Agreement led by Mr Jaroslaw Kaczynski, which sees the deepening industrial recession, not inflation, as the main threat to political stability. The free-market KLD however wants a continuation of the harsh, IMF-backed economic stabilisation programme, while the KPN insisted on tougher measures against former communists but a restoration of elements of the welfare state to cushion the impact of rising unemployment.

Plan for separate Ukraine currency wins support

By Chrystia Freeland in Kiev

MR Jeffrey Sachs, the Harvard economist, has backed Ukraine's plans to introduce a separate currency as the anchor of an economic stabilisation programme.

Mr Sachs is an adviser to Russian President Boris Yeltsin's reform team, and his endorsement should ease western fears that the introduction of a separate Ukrainian currency will unleash an inflationary flood of roubles into Russia.

After a visit to Moscow Mr Sachs met Ukrainian politicians and economists in Kiev at the weekend and was invited by Ukrainian President Leonid Kravchuk to advise the republic on monetary reforms.

Mr Sachs said afterwards the disintegration of the Soviet Union would spur economic reforms. "In practice, the collapse of the Soviet Union is a huge advantage in getting serious about economic reforms... A communist regime cannot be serious about an economic reform programme."

Co-operation between Ukraine and Russia, the two most powerful republics, will be the key to successful economic reform in the region, but Mr Sachs warns that the relationship is fraught with misunderstanding.

"The Russians really fear being engulfed by a flood of roubles from Ukraine, and the Ukrainians really fear being engulfed by a flood of roubles from Russia," he explained.

Russians worry that, if Ukraine introduces a separate currency without taking the rouble in the republic out of circulation, Ukrainian roubles will add to Russia's already staggering inflation.

However, if Ukraine takes its roubles out of circulation when it brings in its own currency, to be called the hryvnia, Mr Sachs believes the move will be "mutually beneficial for Ukraine and Russia".

Mr Sachs went so far as to advise the Ukrainians to move the introduction of the hryvnia forward from May or June, when the new Ukrainian banknotes are due to arrive from Canada. He suggested that Ukraine move sooner by using French-made coupons already in its vaults as a transitional currency.

Although Mr Sachs is optimistic in the long run, he says Ukraine faces tremendous challenges because it is heavily dependent on subsidised Russian oil, is burdened by obsolete heavy industries and defence industries, and must build a government from scratch. Mr Sachs is concerned that in their national euphoria Ukrainian leaders have not fully understood the extent of their economic crisis.

"It is not fair for a country which has just become a country to have to face one of the greatest economic emergencies of all times," he said.

Democratic race set to come alive

By Lionel Barber in Washington

THE Democratic presidential race is set to come alive this week with all six candidates appearing in the first nationalised TV debate and Governor Mario Cuomo of New York likely at last to reveal whether he has any campaign plans.

Mr Cuomo, a political heavyweight with national name recognition and fund-raising power, must decide by Friday whether to file for the New Hampshire primary – the first serious contest of the 1992 campaign.

Most Democrats believe the New York governor cannot afford to steer clear of New Hampshire. Mr Cuomo remains as enigmatic as ever, declaring in tortuously argued newspaper interviews that he must settle the state budget crisis before he can enter the race.

He has cast a long shadow over the six other candidates who were preparing yesterday for the first nationalised television debate, a 90-minute prime-time session at the NBC news studios in Washington.

The candidates are Governor Bill Clinton of Arkansas, a slick Rhodes scholar who has been giving some impressive stump speeches; Senator Tom Harkin of Iowa, an old-style labour Democrat; Senator Bob Kerrey of Nebraska, a Vietnam war hero; former Senator Paul Tsongas of Massachusetts, who is cerebral but uninspiring; former Governor Jerry Brown of California, who is espousing firebrand anti-Washington politics; and Governor Douglas Wilder, the first black governor of Virginia, whose campaign is sputtering.

One early test of the candidates' popularity will come today when Florida announces the result of a non-binding "straw" poll or "beauty contest". Each candidate has aggressively courted the 2,300 delegates who voted yesterday.

Bush and Salinas agree on trade pact

By Lionel Barber

US President George Bush and President Carlos Salinas de Gortari of Mexico agreed at the weekend to conclude a free trade agreement as soon as possible, but left open the key issue of timing.

After talks at the US presidential retreat at Camp David, Mr Salinas declined to say whether he had obtained a firm pledge by Mr Bush to send the free trade pact to Congress in 1992 – a US election year.

The White House is said to be anxious to avoid the North American Free Trade Agreement (which also includes Canada) becoming a campaign issue. Mr Bush's declining popularity and the weakness of the US economy have reinforced speculation that he may prefer to delay submitting the pact until after the November election.

Mr Bush told Mr Salinas he would push ahead with the negotiations, but he warned that he needed an attractive deal to convince congressional sceptics. He also pressed Mr Salinas on the need to open the Mexican oil services industry to US competition, according to US officials.

On Friday, Mrs Carla Hills, US trade representative, failed to allay Mexican fears of a delay by stating that the US had "no intention of substituting speed for substance" – though she gave a powerful endorsement of the benefits of a future Nafta agreement, which would create a free trade area of \$6,000bn (£3,333bn) annual output and 360m consumers.

The Mexican stock exchange plunged last week amid fears of a delay. The administration is particularly sensitive to criticism that the pact could encourage US companies to move to Mexico in search of cheaper labour, driving up unemployment in the US.

US rethinks Soviet stance

By Lionel Barber

AFTER standing on the sidelines for three months, the Bush administration has suddenly moved aggressively to try to deal with the break-up of the Soviet Union.

Mr James Baker, secretary of state, arrived in Moscow at the weekend with specific proposals for dealing with the 27,000 Soviet nuclear weapons and a pledge that the US is ready to lead an international humanitarian relief effort to prevent starvation this winter.

Mr Baker signalled a more urgent US approach during last week's big foreign policy address at Princeton University. Much to President Mikhail Gorbachev's dismay, he said the old Soviet Union was dead and the US was ready to deal direct with the independent, nuclear-armed republics of Russia, Ukraine, Belorussia, Kazakhstan and others.

The nuclear issue is paramount. Mr Baker is expected to seek a firm commitment from all republic leaders that they will preserve the central command and control system over strategic and tactical nuclear weapons as practised in the old Soviet Union.

Mr Dick Cheney, defence secretary, said yesterday that central command need not be tied to one individual, such as Mr Gorbachev, retaining nominal political authority over the Soviet armed forces. "What you need is a control mechanism," he said.

Mr Cheney said the US was equally concerned about proliferation. The fear is that as the Soviet Union disintegrates, nuclear materials or know-how, or "starving scientists", could find their way to rogue countries such as Iraq, Libya, and North Korea.

Mr Baker is carrying proposals which will first seek to eliminate those weapons due to be scrapped under existing arms control treaties or under President George Bush's nuclear arms initiative last September.

Second, Mr Baker is expected to outline proposals for storing nuclear weapons in few spaces, and securing fissile materials. Talks have been under way for months between nuclear experts on both sides, but the economic and political upheavals ahead of a severe winter have accelerated these plans.

In his Princeton speech, Mr Baker announced that the US would host an international conference in Washington next month – including members of the anti-Iraq coalition, Japan and South Korea as well as the international financial institutions – to co-ordinate aid to the republics.

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Church to boost links with east

By Robert Graham in Rome

A 15-day synod of 137 bishops, sponsored by the Vatican, to assess the role of the Church in post-communist Europe concluded at the weekend with a declaration urging greater understanding "with sister churches" in eastern Europe.

Pope John Paul II has also undertaken to establish a new framework to co-ordinate the work of the Church in both east and west Europe.

The synod was the first time the Pope has attempted to organise a comprehensive process of "reflection" on fast-changing events in Europe, and highlights his desire to see the Roman Catholic church re-establishing the primacy of religion throughout Europe.

However, the difficulties of setting up common guidelines for the Church to provide a religious and moral lead in post-communist societies was underlined by the refusal of delegates from the Bulgarian, Romanian, Russian and Serbia orthodox churches to attend. This was in protest at the hasty proselytism of the Catholic Church in the wake of the collapse of communist regimes.

On Saturday, the Pope referred to the sense of emptiness in the synod created by the delegates' absence.

The original draft of the final declaration was criticised for failing to heed delegates' interventions and for too pessimistic a view of the modern secular world. Despite the tabling of amendments, the tone of the declaration reflected the Pope's conservative views.

The "fraternal delegates" from non-Catholic churches were critical of the limited consideration given to their suggestions and felt insufficient emphasis was placed on the need for ecumenicism to bind differing Christians more closely.

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INTERNATIONAL NEWS

Ballot setback for Nigeria's social democrats

NIGERIA'S social democrats suffered big reverses at the hands of right-of-centre opponents in several southern strongholds yesterday when results of state governorship elections started to come in, Reuter reports from Lagos.

State radio said the Social Democratic Party (SDP) lost to the National Republican Convention (NRC) in Lagos, Imo and Abia – three states in the mainly Christian south the SDP had been widely expected to win.

With just over a third of governorship results announced, the SDP had won six states and the NRC five. In addition to Kwara, Ogun and Oyo, the SDP captured the southern states of Osun, Edo and Ondo. The NRC had won the southern states of Lagos, Akwa Ibon, Imo, Abia and Enugu.

Saturday's polls were also for state houses of assembly, which generally went to the party that won governorships.

There was a tie in Enugu. In Lagos NRC governor-elect Michael Otedola will face an SDP-dominated assembly which could test the resolve of both parties to ensure a smooth return to civil rule.

The military government created the SDP and the NRC. It plans to hand over to civilians late next year after national assembly and presidential elections.

The pro-welfare SDP won most southern states in local council polls a year ago. The more cohesive and free market orientated NRC gained much of its support then from the mainly Moslem north.

Polling at the weekend passed off with few reports of unrest, but it was marked by firm government guidance, voter apathy and tight security in all 30 states.

Diplomats and other observers initially estimated that up to 30 per cent of registered voters took part in polls in the south, higher than for last year's local council elections.

Mr Tom Ikimi, NRC chairman, said he was unhappy with the open system of voting, whereby people are counted in polls behind pictures of candidates. The system was introduced by the army to eliminate vote rigging.

Fundamentalists enter Algerian election race

MOSLEM fundamentalists are to contest the December 26 Algerian general election, turning it into a battle of political heavyweights and extreme ideologies, Reuter reports from Algiers.

The Islamic Salvation Front (FIS), which is divided between hardliners and pragmatists over how to achieve its aim of setting up an Islamic state, dropped at the weekend threats to boycott the general election.

The poll will be the first multiparty contest for parliament after nearly three decades of rule by the National Liberation Front (FLN) following independence in 1962.

Diplomats said the decision by the largest opposition party effectively turned the poll into a battle between the FIS and the FLN. It also gives the poll credibility among overseas and foreign creditors.

One western diplomat said: "The process towards multi-party democracy is the main winner from the decision." It would also help economic reforms take root in the country.

"It is easier to have a manageable transition if no one emerges with an overall majority," he added.

Analysts said a boycott by the FIS, which won most local authorities in regional elections in June 1990, would have damaged foreign confidence in future stability.

Algeria is seeking foreign investment, particularly in oil and gas fields, and hopes to attract about \$14bn (£7.7bn) within 10 years.

UN set to repeal Zionist resolution

THE UN General Assembly is expected today to repeal one of its most controversial resolutions – 18 words which declare Zionism to be a form of racism, Reuter reports from the UN.

Condemnation of the Zionist movement which led to the birth of a Jewish state in 1948 stirred one of the most bitter and emotional debates in the UN's history.

The resolution was adopted on November 10 1975 by a coalition of Arab, Islamic and other third world countries, with strong backing from the Soviet bloc. The move to repeal it, spearheaded by the US, was circulated on Friday with 71 sponsors, including the 12 members of the European Community.

ANC in power 'in two years'

A senior African National Congress (ANC) leader predicted yesterday that the movement would take power in South Africa within two years, Reuter reports from Johannesburg.

Mr Cyril Ramaphosa, ANC secretary-general, said in a BBC radio interview: "We would expect that the nightmare of apartheid will end fairly soon and within two years we will have a government of the people."

Mr Ramaphosa will be involved in talks on ending white rule due to start on Friday with the government, the Zulu-based Inkatha Freedom party and other groups.

Wagner protest

Jews who survived the Nazi holocaust protested at reports yesterday that the Israel Philharmonic Orchestra plans to drop a 50-year-old ban on music by Richard Wagner, Adolf Hitler's favourite composer, Reuter reports from Jerusalem.

Mr Dov Shilansky, Israeli parliamentary speaker, appealed to the orchestra to abandon plans – reported by a daily newspaper and Israel Radio – to play works by the German composer at a Tel Aviv concert this month.

WORLD BANK ASSESSES THIRD WORLD BORROWING TRENDS

Action urged on African debt relief

By Michael Prowse in Washington

THE POOREST African borrowers urgently require more generous debt relief from official creditors, the World Bank says in its latest assessment of third world debt trends, published today.

At a briefing on the report, Mr Lawrence Summers, the bank's chief economist, urged rich industrial countries to implement the debt relief measures proposed in Trinidad last year by Mr John Major, then UK Chancellor. The "Trinidad terms" involve a two-thirds reduction in the bilateral official debt of the poorest and most severely indebted countries.

The bank estimates that a two-thirds reduction in official debt would give many, but not all, of the poorest countries a "realistic prospect" of putting their debt servicing on a sustainable basis.

At the London summit in July the Group of Seven leading industrial countries agreed that more official debt relief was needed for low-income countries. But nothing has been done.

The bank fears that if action to reduce unsustainable debt burdens is not taken quickly, fledgling economic reforms under way in about 30 African countries will be jeopardised.

Sub-Saharan Africa's debt has more than tripled to \$174bn (£96.6bn) in the past decade and comfortably exceeds the region's gross national product. Two-thirds of the debt is owed to official creditors.

Mr Ishrat Husain, chief economist for the bank's Africa department, said the Latin American experience showed that economic stability could be restored when "good economic policies are combined with reduction of the debt burden".

Under present policies, however, arrears were building up uncontrollably. Last year the region was able to pay less than half its scheduled interest and principal payments, resulting in arrears on long-term debt of \$10.5bn. Despite repeated reschedulings, debt service paid absorbed more than 30 per cent of exports in many countries.

Mr Husain said the problems of sub-Saharan debtors had been exacerbated by an unforeseen decline of about a third in the price of primary commodities – their staple export – since the mid-1980s.

Mr Summers welcomed the exceptional 50 per cent reduction of bilateral official debt agreed this year for Poland and Egypt. However, he drew attention to other lower middle-income developing countries with similar debt structures and economic problems that have not received such favourable treatment. These include Congo, Ivory Coast, Morocco, Nicaragua and the Philippines.

Nigeria, not eligible for Trinidad terms despite a slump in per capita income, also has a high proportion of official debt.

Terry Kirk

Lawrence Summers: debtors have muddled along

On a more positive note, a small group of middle-income countries – Mexico, Chile and Venezuela – had gained renewed access to capital markets. This indicated that negotiated reductions in commercial bank debt, supported where necessary by official financing, could restore investor confidence. Sustained economic reform, however, was "an essential prerequisite for successful debt reduction".

Eastern Europe, meanwhile, had benefited from an unusually rapid expansion of official support, tied to the implementation of IMF and bank adjustment programmes. Excluding Yugoslavia, net disbursements to the region were expected to total \$8bn this year, against only \$800m in 1990. The increase is only partly offset by a decline of \$1.5bn in private-sector finance.

Summarising the progress of the third world as a whole, Mr Summers said debtors had "muddled along" this year with progress in some areas but regression in others. Total external debt was \$1,350bn, unchanged from last year. After allowing for inflation, developing country debt had fallen from a peak reached in 1987.

Indicators of the severity of the aggregate debt burden were little changed.

The ratio of debt to exports was 176 per cent, the same as last year. The ratio of debt service to exports rose to 21 per cent, against 20 per cent in 1990. The ratio of debt to gross national product fell to 38 per cent from 42 per cent.

The report shows industrialised countries are providing little external support for developing countries. Aggregate net resource flows (net flows of official finance, private loans and foreign direct investment) rose to an estimated \$84.9bn, but this was less in cash terms than received a decade ago.

Aggregate net transfers (net resource flows minus interest payments and repatriated profits) were only \$11.5bn against \$16bn last year. Net transfers were positive for the third year running – an improvement on the mid-1980s when cash was being transferred to industrialised countries – but less than a quarter of the transfers in 1981 before the onset of the debt crisis.

The figures confirm the dwindling significance of commercial bank loans in development. Official grants and loans now account for about two-thirds of net resource flows; foreign direct investment for nearly a further 30 per cent. The share of commercial bank lending is now about 5 per cent, against 40 per cent a decade ago.

Mr Summers said he expected foreign direct investment to become an increasingly important source of resources for developing countries. However, financially pressed commercial banks were unlikely to regain the pivotal role they played in previous decades.

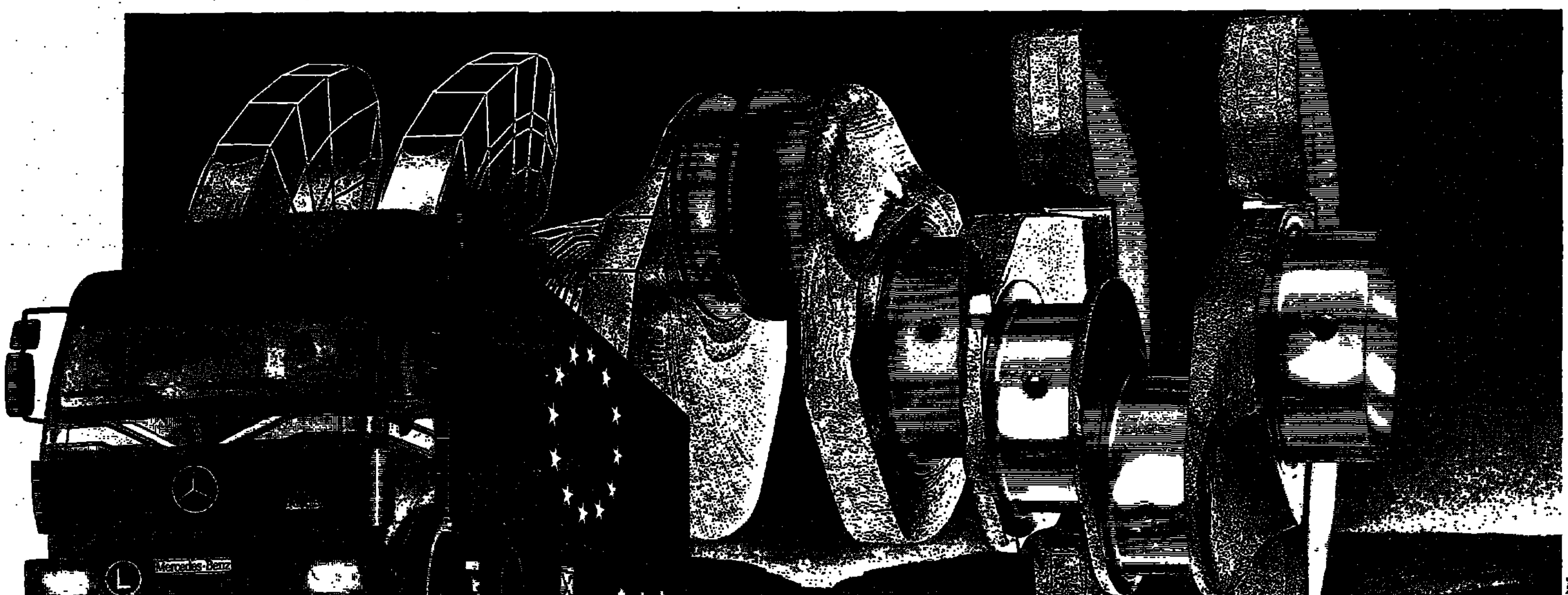
Third world countries fear that a global "capital shortage," caused in part by the unprecedented needs of eastern Europe and the Soviet Union, may stunt development in the 1990s. Mr Summers said the problem was less a capital shortage than a misallocation of resources. G7 countries had invested too much in commercial real estate in their own capitals and neglected the plant and equipment needs of poorer countries.

World Debt Tables 1991-92. External debt of developing countries. Available from 1818 H Street, NW, Washington DC 20433.

AGGREGATE NET RESOURCE FLOWS (LONG-TERM) TO DEVELOPING COUNTRIES, 1981-91 (US$ billions)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991*
Aggregate net resource flows (long-term)	101.4	91.0	71.9	63.3	60.4	54.7	51.5	66.4	70.9	81.5	84.9
Official development finance	35.1	35.3	33.9	33.3	34.1	36.0	30.0	37.6	40.1	49.3	57.3
Official grants	11.5	10.4	9.9	11.4	13.2	14.1	15.0	18.1	19.0	26.5	25.2
Official loans (net)	23.6	24.9	24.0	21.9	20.9	21.9	21.0	19.2	21.1	22.8	26.0
Bilateral	14.4	13.4	13.1	9.5	8.7	8.4	8.3	7.9	9.3	8.0	10.2
Multilateral	9.3	11.5	11.0	12.4	12.2	13.5	12.7	11.4	11.8	14.8	15.8
Private loans (net)	53.3	44.5	29.3	21.5	15.2	9.2	2.1	9.5	7.4	7.1	9.0
Commerical banks	44.5	31.7	20.4	16.2	5.8	2.2	−1.4	2.0	3.3	4.0	u/a
Bonds	1.3	4.9	1.1	0.3	4.9	1.5	0.3	3.2	2.8	1.6	u/a
Suppliers	1.1	1.7	2.7	0.7	−0.2	0.8	−1.5	0.2	−1.1	0.1	u/a
Other	6.4	6.2	5.1	4.3	4.7	4.7	4.7	4.1	2.4	1.5	u/a
Foreign direct investment (FDI)	13.0	11.2	8.6	8.4	10.6	9.6	13.5	19.6	23.6	25.2	24.7
Aggregate net transfers (long-term)	46.5	29.2	13.6	-0.2	−4.6	-7.3	−12.4	−5.8	4.0	16.0	11.5

*Projection.
Aggregate net transfers equals aggregate net resource flows less interest payments and reinvested and remitted profits.



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INTERNATIONAL NEWS

Industrial stalemate: buying peace at the cost of a sterile agenda

THE EUROPEAN MARKET

By Andrew Hill and Charles Leadbeater

THE FRENCH and the Italians can keep alive their hopes of an ambitious EC industrial policy to promote European electronics and automobile manufacturers.

At the same time the British and the Germans are convinced that competition will guide *the development of* European industry based on the single market.

It is a triumph of diplomacy that such radically different assessments of the Maastricht summit's decisions on industrial policy can co-exist. The industrial policy chapter *has been overshadowed by the con*troversy over social policy, yet it could have much more immediate bearing upon industries such as electronics and cars.

The chapter has successfully maintained the uneasy stalemate between the interventionists and the free marketeers, but, according to an extensive study of the prospects for European high-tech industries published recently, it is not *clear that this stalemate serves the* needs of European industry.

The deal left the broad wording of the original draft intact, talking of "encouraging a favourable environment" for co-operation between companies. It still refers to "specific measures in support of action taken by member states".

But Sir Leon Brittan, *the competi*tion commissioner, and his advisers *are cock-a-hoop* about one amendment and one addition to a clause which they believe alter the potentially dirigiste tone:

● Instead of suggesting that "specific measures" should be approved by a qualified majority of member states, the treaty insists on unanimity for such decisions.

● EC leaders also added a sentence *making clear that there was no* basis in the new chapter "for the *introduction* by the Community of any measure which may distort competition".

The preceding chapter on trans-European networks – in telecommunications, transport and information technology, for example – has also been tightened up. It now gives particular weight to indirect *support for such projects* "through feasibility studies, loan guarantees or interest rate subsidies", making it less likely that the companies working on these networks will benefit from direct investment aid.

The idea of a *European* Technology Community was part of Jean Monnet's programme for a United States of Europe. But the Treaty of Rome left the European Commission to act through unanimous decisions and the failure of French attempts in the 1970s to create an industrial policy committee left the issue in limbo.

In the 1980s the ESPRIT informa*tion technology* research programme paved the way for collaboration between producers, just as the British provided additional political weight to moves towards liberalisation.

Margaret Sharp, one of the authors of the European high-technology study, describes the creative tensions between industrial and *competition policy*: "Esprit proved an important stepping stone on the route from national champion to global competitor. This created an important and vocal constituency pressing for the completion of the internal market, for once companies had lost their status as national champions it became imperative that they should maximise the advantages of the single market."

However, the study suggests that the EC economic agenda is becoming sterile. The debate between free markets and economies of scale is the product of the 1970s' preoccupation with how European companies could match their US competitors.

Three factors mean this charac*terisation of the debate may be* misplaced, according to the study.

First, the terms of international competition are changing, so that speed, responsiveness and flexibility in developing and marketing new products are at least as important as the scale of manufacturing operations.

Second, if scale and concentration of ownership were the key to international competitiveness, European companies should be close to achieving it in a *number of sectors*. However, the travails of leading European electronics companies such as Philips, Thomson and Siemens-Nixdorf suggest that size is not a solution to a loss of competitiveness.

Third, an analysis of research activities reported in the study concludes: "Technological strength is correlated with rivalry among the large firms and not gigantism ... this is a clear pointer to the need for a strong European competition policy."

The study's implication is that the simple opposition between competition and concentration needs to be replaced by the pursuit of pluralism – a plurality of competing companies which needs to be matched *by a plurality of public initiatives* on science, education and infrastructure development.

The stalemate at Maastricht may have kept the peace but at the expense of keeping the debate over industrial policy locked in the past.

Technology and the Future of Europe, Edited by Christopher Freeman, Margaret Sharp and William Walker, £45, published by Pinter.

EC push for standard securities rules

By Andrew Hills in Brussels

EC FINANCE ministers and top officials *will try to reach* agreement in Brussels today on stalled legislation to standardise European securities regulation.

While the ministers tackle a packed agenda, civil servants *will try for a compromise on* the investment services directive. If they succeed, their changes will be sent to the 12 ministers ahead of Christmas, *in the hope of reaching politi*cal agreement on at least some *parts of the text.*

The directive is supposed to ensure investment companies can trade throughout the EC after 1992. But member states and the European Commission *are not optimistic about* today's meeting and even the Dutch themselves admitted last week that some countries – anxious to protect their national stock market models – were beginning to unearth *their old objections. The most* difficult issues are still:

● Whether banks should be allowed direct access to stock markets – Spain and Portugal resist this, while Germany leads advocates of direct access. The only possible compromise seems to be to fix transitional periods and regular reviews of any legislation.

● Whether, how, and when off-market transactions should be made public. Britain and Germany, which want to protect their market-makers, are against immediate or rapid disclosure, while southern countries, led by France, are broadly in favour.

● *The extent to which all* transactions should be conducted on regulated markets. This seems closer to resolution. The current text suggests that transactions should be carried out on "a" rather than "the" regulated market, which would ensure the survival of Britain's SEAQ International trading system, for example.

● Whatever happens today, the directive will almost cer*tainly not take effect before the* internal market deadline of January 1 1993 and could even be dropped completely. However, the Commission hopes the Portuguese – whose new finance minister was plucked *from the ranks of Brussels offi*cials earlier this year – may give it added impetus during their presidency, which begins in January.

● *Ministers will also* approve the consolidated supervision directive, which should ensure that holding companies with substantial banking activities are regulated in the countries which host them.

Iata raises airline loss estimates

THE International Air Transport Association (Iata) has raised its minimum estimate of airline losses this year, *Daniel Green writes.* International scheduled services will lose at least $3.7bn (£2bn) in 1991, Mr Gunter Eser, Iata director-general, said. This is $200m higher than his end-of-October esti*mate.*

Mr Eser said airlines might have difficulty financing new aircraft. One member recently cancelled or deferred options on 25 per cent of new aircraft orders. "Governments regard *aviation as a 'cash cow'.* They put on charges and taxes with no regard for airlines' needs or financial situation."

He singled out the US as the worst offender. It has proposed new airport taxes to cover *customs, immigration* and naturalisation costs. Traffic would recover in 1992 only if western economies did better than forecast, Iata said. South-east Asia was the fastest growing region but would be overtaken by north-east *Asia*, including Japan, in 1993, when North American growth would overtake Europe's.

Italy bans Philip Morris sales for month in contraband row

THE Italian Finance Ministry has taken the step of banning sales of Philip Morris cigarettes in Italy for a month as a sanction for excessive contraband sales of its brands Marlboro, Merit and Muratti Ambassador, Robert Graham reports from Rome.

Philip Morris challenged the move as unconstitutional and threatened to take the matter *to the European Commission.* Under a decree of October 31, the ministry can ban sales for a month if the quantity of seized contraband cigarettes exceeds five tons in a year.

In November, a large quantity of cigarettes was seized at Ravenna, reported to include eight tons of Marlboro. Contraband cigarettes sales have been a feature of Italian life, thriv*ing on the existence of* the state tobacco monopoly. In Naples alone, 64,000 people are said to derive a living from such activity. The authorities have begun to get tough for two main reasons.

The troubles in Yugoslavia and the economic difficulties of Albania have encouraged Italian organised crime to establish profitable links. Thus, the authorities say, more cigarettes are being sent to these countries, then re-routed, in the case of Albania, via fast launches to Italy.

The scale of this traffic is reported to be about 500m cartons a year *with the treasury is* losing perhaps as much as L1,755bn (£818.6m).

Philip Morris was quoted as saying it risked losing L310bn from the measure, apart from the prospective loss of cus*tomer loyalty. It claimed the* government was playing into the hands of black-marketeers.

Yesterday, the street price of a packet of Marlboro was up L200 on its normal street price of L3,000.

European energy charter set for signing

By Andrew Hill

ALL 15 republics of the old Soviet Union, and the enfeebled central government, will sign the European energy charter in The Hague tomorrow.

But there is still confusion about who will agree the legal*ly-binding treaty which will* put the political declaration into practice.

The charter, which will also *be signed by 34 other countries* including EC members, the US and Japan, is intended to help the old Soviet Union exploit its abundant natural resources, encourage investment and aid regeneration of the east and *central European economies.*

It is the brainchild of Mr Ruud Lubbers, the Dutch prime minister.

But the two days of rhetoric and self-congratulation which begin today in The Hague are less significant than the backroom negotiations over the "basic agreement".

This "basic agreement" is unlikely to be signed until the middle of next year because of *the Soviet republics' inability* to commit themselves to a binding treaty.

The "basic agreement" will set up the institutional framework for the charter, and prepare the ground for various specific protocols on hydrocarbon use, nuclear safety, energy efficiency and the environment.

*It will also lay out a proce*dure for resolving disputes.

Denmark 'heading for surplus'

THE Danish Economy Ministry *has forecast for 1992-93 the* elimination of the public sector budget deficit, continued low inflation, a surplus on the current balance of payments, and a slight drop in unemployment, Hilary Barnes reports from *Copenhagen.*

It projects an increase in real gross domestic product of about 2.5 per cent in both years, with private-sector out*put rising 3-3.5 per cent.*

Inflation will stay at about 2.5 per cent a year and the current balance of payments will show a stable surplus of about DKr14bn (£1.26bn).

Unemployment will average *10.4 per cent in 1992,* unchanged from this year, but fall to about 10 per cent in 1993, the ministry says.

● Danish voters, who will be *taking part in a referendum in* either June or September next year to approve the Maastricht accords, are evenly split on the question of economic and monetary union.

Thirty-nine per cent are in favour, with 38 per cent against and the remainder undecided, according to a poll by Vilstrup Research.

INTERNATIONAL ECONOMIC INDICATORS: **PRICES AND COMPETITIVENESS**

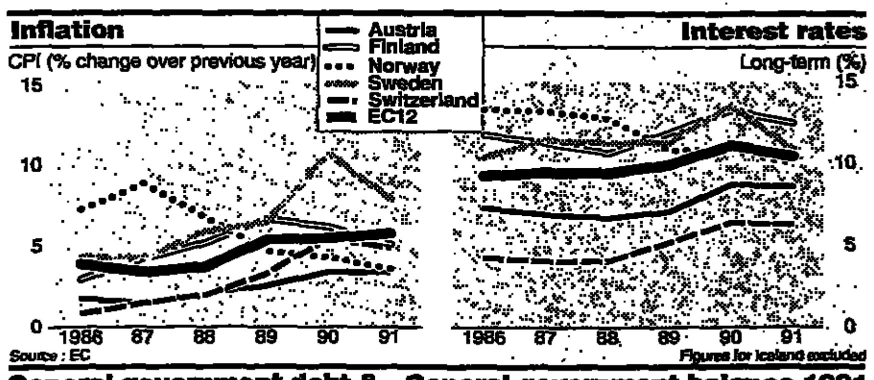
Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout: other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

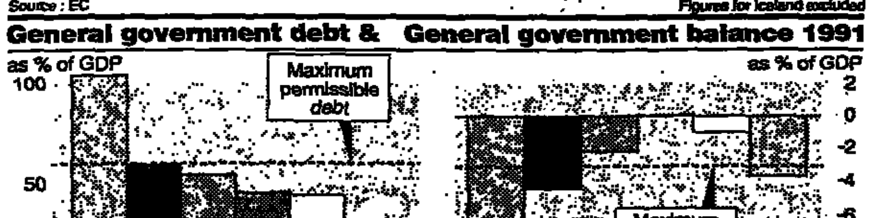
	UNITED STATES					JAPAN				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	98.6	99.1	96.0	98.4	97.1	97.9	100.8	97.0	98.4	100.1
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.0	99.9	77.1	100.8	95.3	101.4	103.3	125.7
1987	105.6	100.7	104.0	97.5	64.7	101.2	92.5	103.1	100.6	126.9
1988	109.9	103.2	107.0	98.4	59.9	102.2	92.3	107.8	96.2	137.4
1989	115.2	108.5	110.0	99.1	63.0	105.0	94.2	114.0	96.1	131.3
1990	121.5	113.8	114.0	99.2	56.6	108.2	95.7	120.1	98.2	116.1
4th qtr.1990	6.2	6.4	3.9	0.6	52.1	3.6	2.4	5.7	0.7	120.8
1st qtr.1991	5.3	3.5	3.6	2.3	52.7	3.6	2.8	3.8	1.3	118.0
2nd qtr.1991	4.8	3.4	2.9	2.5		3.1	2.3	4.3	3.0	
3rd qtr.1991	3.9	1.9	3.2	2.5		3.3	1.7			
December 1990	6.1	5.7	3.6	2.6	n.a.	3.7	2.5	6.0	1.0	n.a.
January 1991	5.7	4.0	4.5	1.8	n.a.	3.9	2.8	1.9	0.0	n.a.
February	5.3	3.4	3.6	2.6	n.a.	3.4	2.8	5.4	1.0	n.a.
March	4.9	3.2	2.7	2.6	n.a.	3.4	2.6	4.1	3.0	n.a.
April	4.9	3.3	2.7	2.4	n.a.	3.0	2.4	4.0	3.0	n.a.
May	5.0	3.5	3.5	2.5	n.a.	3.0	2.4	4.0	2.0	n.a.
June	4.7	3.5	2.6	2.5	n.a.	3.3	2.2	4.6	4.0	n.a.
July	4.4	2.9	3.5	2.2	n.a.	3.4	2.0	1.9	3.0	n.a.
August	3.8	2.0	3.5	2.9	n.a.	3.5	1.9	6.5	5.0	n.a.
September	3.4	0.7	2.6	2.5	n.a.	3.0	1.1	3.0		n.a.
October	2.9	0.0	2.6	3.4		3.2				
November		-0.5				3.7				

	GERMANY					FRANCE				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	97.9	97.6	96.0	108.0	98.7	94.5	95.8	94.4	95.5	114.1
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	104.0	104.0	111.3	102.5	97.2	104.5	101.5	101.9
1987	100.1	95.1	108.0	107.0	126.0	105.9	97.8	107.8	103.8	102.1
1988	101.4	96.2	113.0	107.0	126.2	108.8	102.8	111.1	104.3	99.3
1989	104.2	99.3	117.0	108.0	122.6	112.6	106.4	115.4	106.5	95.8
1990	107.0	101.0	124.0	111.0	126.8	116.4	107.1	120.6		100.6
4th qtr.1990	3.0	1.8	n/a.	3.1	124.6	3.6	0.7	n.a.		102.7
1st qtr.1991	2.7	2.1	n/a.	2.8	124.2	3.4	0.7	n.a.		101.3
2nd qtr.1991	3.1	2.2	n/a.	3.0		3.2	−0.7	n.a.		
3rd qtr.1991	4.1	2.8	n.a.			3.0	-1.6	n.a.		
December 1990	2.8	1.5	–	3.7	n.a.	3.6	n.a.	–	n.a.	n.a.
January 1991	2.8	2.3	6.7	1.8	n.a.	3.4	n.a.	–	n.a.	n.a.
February	2.7	2.2	–	2.7	n.a.	3.5	n.a.	4.6	n.a.	n.a.
March	2.5	1.8	–	2.8	n.a.	3.5	n.a.	–	n.a.	n.a.
April	2.8	2.2	3.2	0.9	n.a.	3.2	n.a.	–	n.a.	n.a.
May	3.0	2.2	–	4.4	n.a.	3.2	n.a.		n.a.	n.a.
June	3.5	2.3	–	3.6	n.a.	3.2	n.a.		n.a.	n.a.
July	4.4	3.3		1.8	n.a.	3.3	n.a.		n.a.	n.a.
August	4.1	2.7			n.a.	3.4	n.a.		n.a.	n.a.
September	3.9	2.8			n.a.	3.0	n.a.		n.a.	n.a.
October	3.5	2.3				2.6	n.a.		n.a.	n.a.
November	4.2					2.5				

	ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	92.1	92.8	89.9	91.8	98.7	94.3	95.0	91.7	94.3	97.5
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.6	101.4	103.4	104.3	107.7	104.6	92.9
1987	111.0	103.2	111.6	105.6	102.5	107.7	108.3	116.3	105.9	90.6
1988	116.5	106.6	118.4	109.7	101.9	113.0	113.2	126.2	106.9	96.6
1989	124.2	113.1	125.6	112.2	109.2	121.8	119.0	137.2	113.6	95.0
1990	131.8	117.8	134.7		117.1	133.3	126.0	150.1	123.6	98.3
4th qtr.1990	6.3	3.9	7.2		119.5	10.0	5.9	9.6	11.2	105.2
1st qtr.1991	6.6	4.2	7.9		118.4	8.7	6.3	8.9	10.9	107.1
2nd qtr.1991	6.8	3.9				6.0	6.0	8.5	10.8	
3rd qtr.1991	6.4					4.8	5.7		6.7	
1990 December	6.3	3.6	7.1	n.a.	n.a.	9.3	5.9	9.9	11.8	n.a.
1991 January	6.5	4.2	7.8	n.a.	n.a.	9.0	6.3	9.5	10.7	n.a.
February	6.7	4.2	7.8	n.a.	n.a.	8.9	6.3	9.1	11.6	n.a.
March	6.6	4.2	8.0	n.a.	n.a.	8.2	6.3	8.0	10.5	n.a.
April	6.7	4.0	8.4	n.a.	n.a.	6.4	6.2	9.2	12.7	n.a.
May	6.8	3.8		n.a.	n.a.	5.8	6.0	8.3	11.1	n.a.
June	6.9	3.8		n.a.	n.a.	5.8	5.8	8.0	8.8	n.a.
July	6.7	3.8		n.a.	n.a.	5.5	5.9	7.6	7.1	n.a.
August	6.3			n.a.	n.a.	4.7	5.7	8.3	7.5	n.a.
September	6.2			n.a.	n.a.	4.1	5.6	7.5	5.6	n.a.
October	6.1					3.7	5.2			
November	6.2					4.3	5.1			

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing. other countries – manufacturing industry. Real exchange rate: IMF real effective exchange rate based on relative unit labour costs (non-normalised). A fall in the index indicates improved international competitiveness.





Why widening the EC makes deepening less risky

THE DRAFT TREATY on economic and monetary union, agreed at last week's *Maastricht summit, has significantly* raised the probability that European monetary union (Emu) will occur by the end of this decade. But the separate decision to accelerate the widening of *the Community may allow Emu to begin* sooner rather than later.

Emu can *only begin in 1997 if a major*ity of EC member countries have already passed a series of tough convergence tests. It is unlikely that a majority of its current members will be able to do so by then. *The minority will then be free to* form a monetary union in 1999.

France, *for one, would rather not wait.* Perhaps there was a French hand in the decision to bring forward the negotiations over Austria and Sweden's prospective membership from 1993 to the *second half of next year.*

Sweden and Austria are already committed to adopting much of the current EC legislation through their membership of the European Economic Area (EEA), a 19-nation free-trade zone agreed between the EC and the Efta countries in October. Whether they would also be eligible to join Emu will depend on *whether they pass the convergence tests.*

There are four convergence criteria:

● a consumer price inflation rate within $1\frac{1}{2}$ percentage points of the three lowest national rates;

● a long-term interest rate within 2 percentage points of these three countries;

● *no "excessive deficit", defined as a* general budget deficit greater than 3 per cent of gross domestic product or a gross public debt to GDP ratio above 60 per cent – unless it is falling "at a satisfactory pace";

● no devaluation within the European *exchange rate mechanism in the previ*ous two years.

A quick glance at the data suggests that the important Efta countries *are* already in much better shape to join Emu *than many of the EC's current members.* Austria and Norway both satisfy the inflation test in 1991. *Austria and Switzerland* have had below-EC average inflation throughout the 1980s. Sweden and Finland have had above-average inflation; but both are currently enduring recessions in order to bring inflation down. That all these four countries pass the *long-term interest rate test suggests that* the markets expect them all to succeed.

The purpose of these criteria, *which* Germany fought hard for, is to exclude those countries which could not sustain a German-style monetary policy without suffering slow growth, high unemploy*ment and potentially destabilising* Emu.

Austria and Sweden would find it less costly to join Emu than some EC members because they are more integrated into the northern European economy. Mr Barry Eichengreen, an economist at the University of California at Berkeley, finds *a high degree of economic integration* among the northern European "core" countries (Germany, France, Denmark and the Benelux), but not between this core group and the rest of the EC's southern "periphery."* Austria, Switzerland, and to a lesser extent Sweden, are *well integrated into the northern "core".* They do not, and would not, face the same problems as the southerners in living with a northern-European-biased monetary policy.

The inflation test will probably not be the obstacle to Emu in 1997. Assuming Britain does not join, Italy would probably have low enough inflation by then to *form a majority with the "core" six. The* problem is the "excessive deficit" test. Currently, eight EC countries have excessive deficits. Six of these also fail the debt test, spectacularly so for Italy and Greece. Italy will do well even to stabilise its debt ratio by 1996.

The Efta countries' public finances are in better shape. Austria, Sweden, Norway and Finland all pass the 60 per cent rule, as the chart shows. EC membership for Sweden and Austria would permit a single currency in 1997 while excluding all the "peripheral", high-risk countries. Both France *and Germany would then be* satisfied: France would have Emu sooner rather than later; Germany would have Emu without Italy.

Edward Balls

**B.Eichengreen et al.: "Is there a conflict between EC enlargement and European monetary unification?" 1991.*

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Tories increase pressure on mortgage lenders

By Ralph Atkins and David Barchard

CABINET ministers will today increase the pressure on building societies' to strengthen considerably their draft proposals for stemming the rising tide of housing repossessions which is alarming senior Tories.

Mr Norman Lamont, the chancellor, Mr Tony Newton, social security secretary, and Mr Michael Heseltine, environment secretary, will meet mortgage lenders' representatives after being asked by Mr John Major to find an agreement by Christmas on proposals for cutting repossessions to the absolute minimum. With housing rising rapidly on the political agenda the tension at the meeting is likely to be high.

The Council of Mortgage lenders was drawing up proposals for today's meeting over the weekend and building societies' chiefs and other lenders will meet together beforehand.

But there is agreement that there cannot be a moratorium on repossessions and the signs are that the industry's proposals will fall far short of calming government fears.

A forecast at the weekend pointed to a big acceleration in repossessions next year which, together with a stagnant housing market, would undermine significantly the Conservative's electoral chances.

Some mortgage brokers are now privately fearful that a further crash in the housing market - described as a "melt down" - could be on the way.

Labour will this week announce that it is meeting with mortgage lenders to discuss its proposals for a six-month "breathing space" between repossession and eviction, during which individually-tailored rescue schemes would be formulated.

FT management makes plans in case of dispute

By Lisa Wood, Labour Staff

THE MANAGEMENT of the *Financial Times* is making plans to bring out a newspaper should journalists decide to take industrial action.

Mr David Walker, managing editor said yesterday: "If there is a strike we will bring out a newspaper. We have no doubt of our ability to do this."

The results of a ballot of members of the National Union of Journalists (NUJ) on industrial action, up to and including a strike, will be known tomorrow.

The dispute is over an announcement by the management last week that nine members of staff, long term sufferers of repetitive strain injury (RSI), would probably be retired on health grounds. The RSI sufferers and the NUJ have complained because the offer of disability pensions is compulsory. For eight people these would be the pensions they would have received, based on current salary, if they had retired at normal retirement age. They range up to two thirds of current salary.

Mr Walker said about 15 senior members of the editorial staff had held a meeting on Saturday to discuss the situation and possible consequences of industrial action.

Attempts were continuing he said to resolve the dispute through negotiations. Meetings had been arranged both with NUJ officials and the group representing RSI sufferers.

Mr Walker said that the management had no wish to de-recognise the NUJ.

Maastricht fails to give government poll boost

By Ralph Atkins

MR DOUGLAS Hurd, foreign secretary, and other senior Tories sought yesterday to maximise their support among Conservative Euro-sceptics over Maastricht by saying that Britain had stopped the "conveyor belt" to a federal Europe.

As MPs prepared for a two-day debate on Europe starting Wednesday, Mr Hurd said federalism was not incorporated into the treaty deal. There was no agreement that it would be on the agenda when the European Community countries met to discuss further moves to a closer union in five years' time.

The first post-Maastricht opinion polls showed Labour and the Conservative's neck and neck – a slight improvement for the Tories over last month. But the rebound fell far short of that needed to make a general election before spring more than a possibility. Labour said its lead would be restored as domestic issues returned to the political agenda.

Mr Chris Patten, Tory party chairman, said on television: "I don't think anyone necessarily expected a successful negotiation at Maastricht to produce a sudden surge in Conservative support. I'm sure that if we'd failed it would've been bad for us."

Mr John Wakeham, energy secretary, told his constituency association last night that, "the federalists will never be in a position again to try and force Europe into the straight jacket they sought to at Maastricht. Within a decade Europe will be a very different place."

Speaking on BBC television, Mr Hurd defended Britain's rejection of the European social chapter and – despite Labour's accusations over the weekend that ministers were misleading the electorate – repeated government claims that it would undermine 1980s trade union legislation.

Port fights to take on a new role after loss of contract

THE HARBOUR Commissioners of the Port of Whitehaven, in north west England, which is facing the biggest crisis in its history, meet tomorrow to decide how it can fight to recover from the loss of its sole cargo writes Chris Tighe.

Once the second biggest port in Britain, it thrived in past centuries on trade in rum, sugar, tobacco and even slaves, and more recently handled substantial exports of coal.

But the West Cumbrian harbour, which lost its coal shipments in the early 1980s, was dealt a major blow earlier this month when chemicals manufacturer Albright and Wilson announced that its works in Whitehaven is to cease phosphate rock processing. Imports of the rock from Morocco accounted for virtually all the port's £600,000 a year turnover.

A & W plans to buy in commercial grade phosphoric acid. This will be imported through Workington which can easily handle ships twice the size of neighbouring Whitehaven's 3,000 tonne limit. The bulk carriers which at present bring the phospate rock to Whitehaven have to lie off the harbour while their cargo is unloaded onto smaller ferries.

Westwards-facing Whitehaven, used as a harbour since Roman times, is having to look for a new role at a time when the European single market is focusing attention on east coast links.

Mr Ron Rigg, general manager of the trust port, said the loss of the phosphate rock cargo, which will cease from June 1992, was potentially disastrous but the port, which is used by local fishermen, was determined to survive.

The end of imports will cost 70 jobs at the port, as well as 120 at A & W. Volvo has also announced the closure of its Workington bus plant, where 370 people work. The area also faces up to 5,000 job losses due to the end of construction projects at the Sellafield nuclear reprocessing plant.

Shipyard marks return to a sense of order

Chris Tighe reports on how a consortium has breathed life into Sunderland industry

A CONSORTIUM which fought for more than two years to prevent the demolition of Sunderland's last shipyards and create a new demand for local shipyard workers' skills has won its first order.

Pallion Engineering, an unusual fusion of Anglo-Greek investors, former shipyard shop stewards, businessmen, a left-wing Labour MP and the Church of England, has clinched a steel fabrication contract for a flue gas desulphurisation project.

Today the company, which bought the former Pallion shipyard from British Shipbuilders in July for £2m, will begin contacting some of the 1,180 ex-shipyard men who have expressed interest in returning to work there.

The recruits will come back to some of the best covered dry dock and construction bays in Europe, unchanged since the government announced in December 1988 that Pallion and Southwick, Sunderland's last shipyards, were to close with the loss of more than 2,000 jobs, ending a 600 year old industry which had once made it the world's largest shipbuilding town.

The men will return not to build ships - that is barred until at least mid-1994 under a deal between the government and the European Commission.

Instead, they will be making large fabricated steel components for off-shore and on-shore projects.

Pallion Engineering's single union agreement with the GMB general union is in effect a no-strike deal.

And, in exchange for being recruited as single-status salaried employees eligible for share ownership in the company they will be expected to work without overtime pay up to 48 hours a week when necessary, on the understanding their normal weekly wages will still be paid if work is scarce.

"It's a totally new approach in industrial relations - perhaps it's surprising it's being driven by the people who were the tribal chiefs of the old way," says PE's chairman and chief executive Mr Joe Craig, former managing director of UIE on the Clyde.

Three quarters of the £2m purchase price came from Anglo-Greek shipowners and investors Mr Lou Kollakis and Mr Dimitri Manios.

The other £500,000, vested in an Employee Share Ownership Trust, was covered by £300,000 from Sunderland Enterprise Training, a British Shipbuilders subsidiary, and £200,000 from Unity Trust Bank. Of this sum, £100,000 has been underwritten by the Church Commissioners and the Urban Fund of the Church of England. PE also has £200,000 in government and European money to set up a large training school with charitable trust status.

Commitment: Joe Craig (left), Peter Callaghan and Bob Clay by the shipyard

The new six-figure contract, providing work for 14 men for 20 weeks, is modest by the heavy fabrication industry's standards.

News of the order was especially satisfying for Mr Bob Clay, MP for Sunderland North, who led the anti-closure campaign.

Now a director of PE, he occupies an office in the former shipyard management headquarters.

Mr Clay has declined to say why he is standing down from his safe seat at the next election. But he evidently finds PE a more congenial environment than the Commons.

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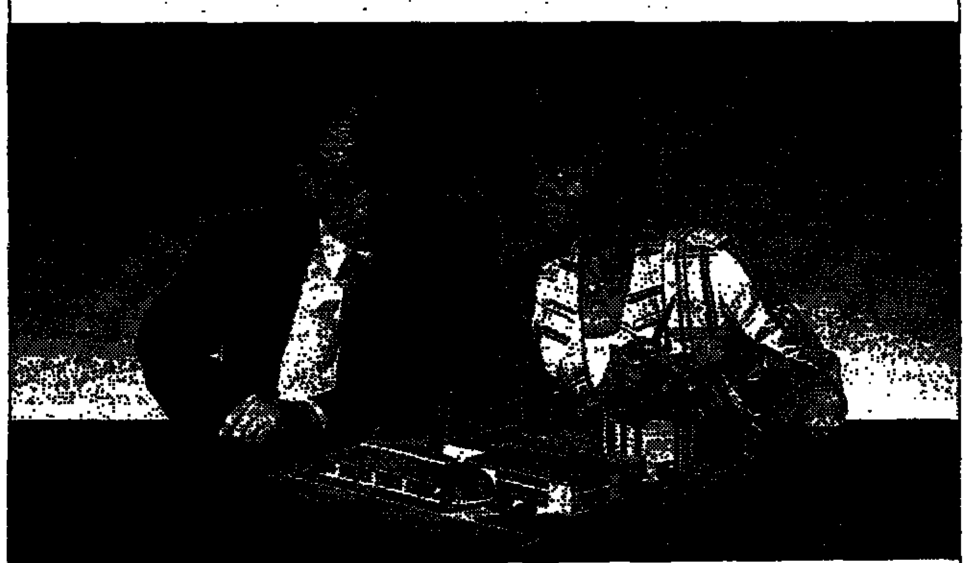

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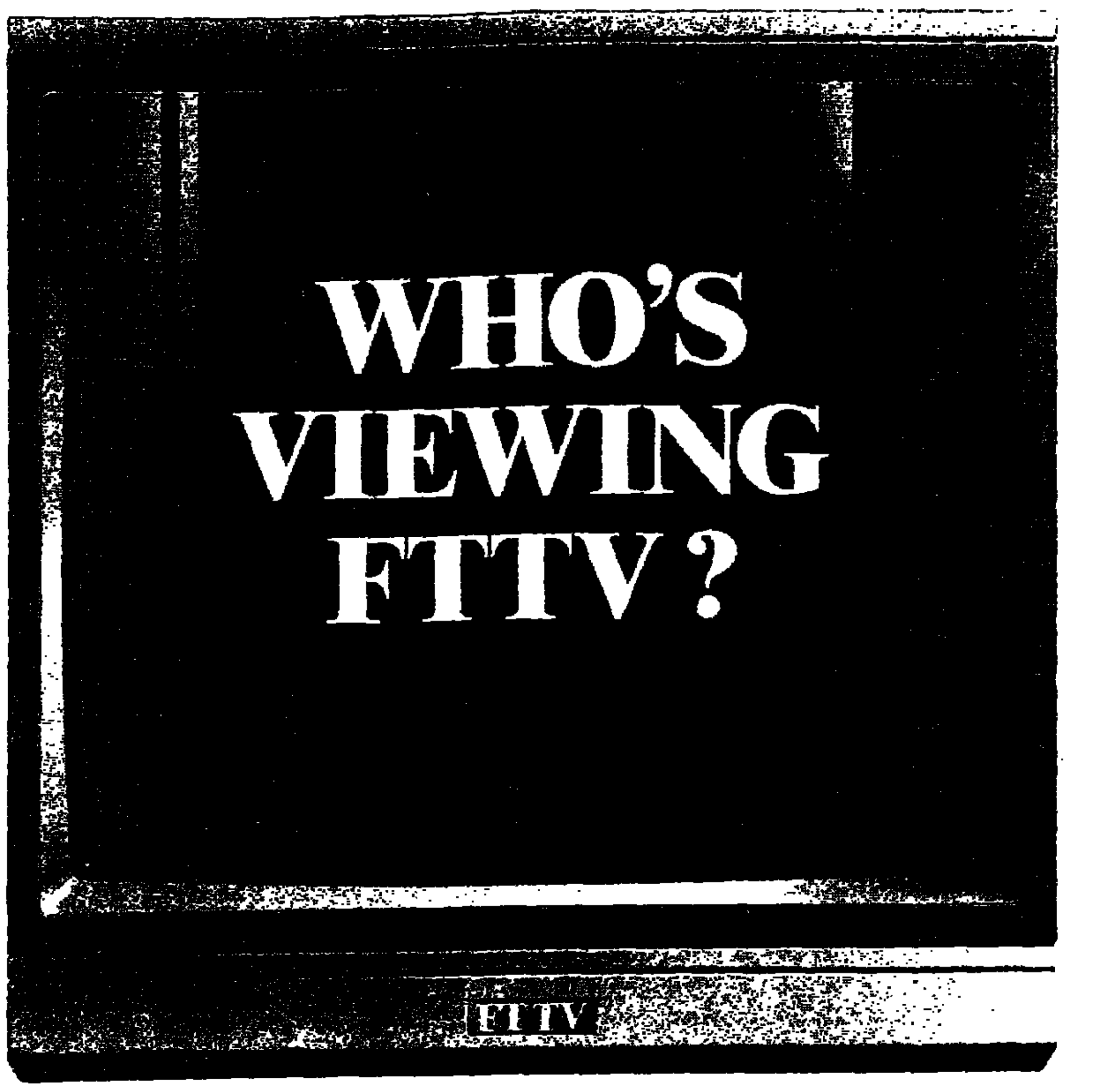

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UK NEWS

Business 'positive on charter'

By Lisa Wood, Labour Staff

ONLY ten per cent of UK businesses believe the EC Social Charter will have a negative effect on personnel practices according to a European-wide survey published by Cranfield School of Management, the business school.

Cranfield said that while the UK showed the highest percentage of negative responses to the charter the survey demonstrated the positive attitudes of many UK businesses "despite the government's protestations."

The UK has been let out of the main provisions of the charter under the deal finalised at Maastricht. This allows Britain's 11 partners to press ahead with the charter outside the treaty.

According to the survey, performed by the Price Waterhouse Cranfield Project, a research body set-up by Cranfield and Price Waterhouse, the management consultants, negative responses towards the charter were small across the EC and varied between one and 10 per cent.

Industrial Relations

UK workers' productivity 'greater now than last decade' claims survey

By David Goodhart, Labour Editor

A SURVEY of British workers shows that most, especially those in low skill manual jobs, believe they work harder now than they did at the start of the 1980's.

The link between harder work and higher productivity is not clear but neither is there any direct connection between harder work and greater dissatisfaction, according to researchers from the University of Warwick Industrial Relations Research Unit.

The study, "Workers are Working Harder: Effort and Shop-floor Relations in the 1980's", published in the latest issue of the British Journal of Industrial Relations, found nobody who believed work had grown easier but nearly half of the sample of 300 had no clear view on the matter.

Four workplaces were examined, a manufacturing company, a British Rail area, a large hospital and a large financial services company, between 1987 and 1989.

The hospital workers showed the strongest belief that work had become harder, with 41 per cent taking this view. Amongst the hospital workers it was the ancillary staff who were most convinced they were working harder, probably reflecting the effect of competitive tendering, while only a small minority of nurses held that view.

Next came the manufacturing company, with unskilled workers on packing lines believing most strongly that they worked harder, thanks to stricter supervision, followed by the financial services company and British Rail. At British Rail the train crews did not believe they were working harder despite the introduction of flexible rostering, which provoked a bitter strike in 1982, and subsequent developments such as driver-only trains.

However, platform staff did believe they were working considerably harder mainly because the reduction in overtime meant that stations were often short-staffed.

Another contribution to the latest issue of the BJIR argues that there is no clear relationship between the intensification of work and the increase in serious industrial injuries in the first part of the 1980's.

● Customs and excise workers would lose their right to an automatic pay increment each year under the first ideas on performance pay to be floated formally by a government department since the launch of the citizens' charter.

Long view: bird watch across the Ribble estuary

UK nature reserve to be extended

By Emma Tucker

THE Ribble Estuary national nature reserve, (NNR) winter home for waders and wildfowl, has been extended to become the largest NNR in England.

Two areas of saltmarsh grazing, and the sandflats and mud banks of the Ribble foreshore have been added to the reserve which now covers over 4,000 hectares.

The Ribble estuary is a vital wintering ground and staging post for waterfowl on migration along the west coast of Britain from their breeding grounds in the arctic and sub-arctic to their winter homes in western Europe and Africa.

English Nature has leased the foreshore and river channel from the Duchy of Lancaster and bought the two saltmarsh areas.

Thousands of knot and bar-tailed godwit arrived in the late summer to moult. Many will stay on over the winter.

TRADE FAIRS, EXHIBITIONS & CONFERENCES

JANUARY 9&10
International Boundaries: Political, Legal and Strategic Implications
Convened by The Royal Institute of International Affairs and Frere Cholmeley. To be held at Chatham House, London. Enquiries RIIA Conferences.
Tel: 071 957 5700 or
Fax: 071 957 5710
LONDON

JANUARY 13
AFRICA 2000: THE ROAD TO RECOVERY
A major international conference on Africa's economic and business prospects held by the African Development Bank, Oxford International Institute and Standard Chartered Bank.
Speakers include: Babacar Ndiaye, William Ryrie, Chief Shonekan, M K Nabli and Tim Sainsbury.
Contact: Miss Lindsey Neil
Tel: 0225 466744 Fax: 0225 442903
LONDON

JANUARY 23&24
THE REINTEGRATION OF THE BALTIC STATES INTO THE WORLD COMMUNITY
Convened by The Royal Institute of International Affairs in association with the Governments of Estonia, Latvia and Lithuania, & The London Chamber of Commerce and Industry. To be held at Chatham House, London.
Enquiries: RIIA Conferences.
Tel: 071 957 5700
Fax: 071 957 5710
LONDON

JANUARY 28
PEOPLE PERFORMANCE AND PROFIT
A lunchtime seminar on the training and human resource development challenges facing financial services organisations in the 1990's.
Themes: Preparing people for change; clarifying training needs; upgrading the training function; use of competence - based approaches.
Contact: The Industrial Training Services Ltd
Tel: 071 637 8876 Fax: 071 436 6412
LONDON

JANUARY 27 & 28
Recent Developments in the ECU Bond Market
The Tower Thistle Hotel
Establish the latest in the EMU process and a strategy for buying Europe, ECU issuing policy and pricing ECU Bonds.
Contact: Joyce Fernandez, BRI
Tel: 071-637 4383
LONDON

JANUARY 28&29
Opening Up The Russian Oil Industry
A unique opportunity to meet the new decision makers in Russia. Convened by the newly established Centre for Foreign Investment and Privatisation (Moscow), and The Royal Institute of International Affairs. To be held at The Inter-Continental Hotel London.
Enquiries RIIA Conferences.
Tel: 071 957 5700 Fax: 071 957 5710
LONDON

FEBRUARY 3
PROTECTING YOUR PENSION FUNDS: The Maxwell Legacy
Focusing on the problems of pension fund protection. Speakers will reveal potential weak areas and examine ways to tighten management systems.
Speakers: Postel, Sainsbury, Ellison Westhorp, Lovell White Durrant, Nobel Lowndes, R. Watson and NAPF.
Contact: Centaur Conferences
Tel: 071 434 3711 Fax: 071 287 8706
LONDON

FEBRUARY 4
Competitive Marketing for Accountants and Solicitors
KPMG, Nabarro Nathanson, Cameron Markby Hewitt, Cranfield, Citigate, D.J. Freeman. Topics: Strategic Planning, Communications, What Clients Really Think, Building a Marketing Culture, Confessions of a Marketing Partner. Reputation Management, Client Entertainment, Professional Selling. Chris Kohut, Century Communications
Tel: 071-344 8884
LONDON

FEBRUARY 5 & 6
Offshore Fire and Blast Design Guidance Notes
Two day seminar organised by SCI with support from UKOOA Fire and Explosion Work Group.
Inquiries: The Steel Construction Institute, Silwood Park, Ascot, Berkshire SL5 7QN
phone 0344-23345; fax 0344-22944
LONDON

FEBRUARY 17
London Motor Conference
The impact of the recession, relationships between Japanese car manufacturers and European components suppliers, trends in distribution and retailing will be discussed.
Enquiries: Financial Times
Tel: 071-925 2323
Fax: 071-925 2125
LONDON

FEBRUARY 19
EC Proposals For Civil Liability for Environmental Damage: The Implications for UK Industry
A detailed examination of the EC Commission's proposals that have caused so much alarm amongst industrialists.
Chaired by Lord Clinton-Davis former EC Environment Commissioner.
Contact: Westminster Management Consultants Ltd.
Tel: (0483) 740 730 Fax: (0483) 740 727
LONDON

FEBRUARY 25 & 26
International Banking
The 1992 meeting will examine how the international banking industry is responding to the challenges of economic uncertainty and the continuing pressures on profitability and margins.
Enquiries: Financial Times
Tel: 071-925 2323
Fax: 071-925 2125
LONDON

MARCH 4
Investing in a Presence in Japan
This high-level, yet practical conference, arranged in association with Priority Japan, will feature a keynote speech by The Rt Hon Peter Lilley, MP.
Enquiries: Financial Times
Tel: 071-925 2323 Fax: 071-925 2125
LONDON

MARCH 10 & 11
The European Water Industry
Policies for preventing water pollution and protecting water quality in the UK and EEC, charging systems, finance for infrastructure in Eastern Europe will be addressed.
Enquiries: Financial Times
Tel: 071-925 2323 Fax: 071-925 2125
LONDON

MARCH 16&17
World Pharmaceuticals
The theme of the 1992 conference will be 'Globalising the Organisation and Management of the Pharmaceutical Industry' to meet the changing marketplace.
Enquiries: Financial Times
Tel: 071-925 2323 Fax: 071-925 2125
LONDON

MARCH 19 & 20
INTERNATIONAL INNOVATION '92
Organised by NIMTECH The North West Technology Centre. The conference provides information on £1000m EC cash for collaborative R&D product development includes workshop on European business opportunities. The exhibition presents practical technology from all over the world
Contact: David Locke (tel. 0695 50032 fax. 0695 50812)
MANCHESTER

MARCH 23 & 24
International Packaging and the Environment
To review German and EC packaging legislation, prospects for international packaging, and the impact of legislation for manufacturers and retailers.
Enquiries: Financial Times
Tel: 071-925 2323 Fax: 071-925 2125
LONDON

INTERNATIONAL

FEBRUARY 23 & 24
Air Transport in the Asia-Pacific Region
Long-term prospects for air transport in the region, the changing international framework and the problems of congestion will be addressed.
Enquiries: Financial Times
Tel: 071-925 2323 Fax: 071-925 2125
SINGAPORE

EXHIBITION

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Contact: Roger West: Ext 2683
LONDON

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COMPANY NOTICES

BRADFORD & BINGLEY
BUILDING SOCIETY

£100,000,000
Floating Rate Notes due 1995

In accordance with the terms and conditions of the Notes, the interest rate for the period 13th December, 1991 to 13th March, 1992 has been fixed at 10⅝% per annum. The interest payable on 13th March, 1992 against Coupon 3 will be £267.28 per £10,000 nominal.

Agent Bank
ROYAL BANK OF CANADA

AIP FINANCE N.V.
US $20 000,000 GUARANTEED FLOATING RATE NOTES 1995

The interest rate applicable to the Notes in respect of the period commencing 16th December 1991 will be 5½% per annum. The interest amounting to US $139.79 per US $5,000 and to US $279.58 per US $10,000 principal amount of the Notes will be paid on 16th June 1992 against presentation of Coupon No. 8.

BANK LEUMI (UK) Plc
Principal Paying Agent

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LEGAL NOTICES

NOTICE OF MEETING OF CREDITORS
BAILEYS (LEAMINGTON) LIMITED
(JOINT ADMINISTRATIVE RECEIVERS APPOINTED)

NOTICE IS HEREBY GIVEN, in pursuant to Section 48 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above named company will be held at The Grand Hotel, Colmore Row, Birmingham on Thursday 2 January 1992 at 11.00am for the purposes of having laid before it the report prepared by the Joint Administrative Receivers in accordance with the said section and, if thought fit, appointing a committee.

Creditors whose claims are wholly secured are not entitled to attend or vote at the meeting. Creditors who are partly secured may only vote in respect of the balance of the amount due to them after deducting the value of the security as estimated by them. A creditor in respect of a debt due on, or secured by, a bill of exchange or promissory note must treat liability of any person who is liable on the bill antecedently to the company as a security held by him (unless that other person is subject to a bankruptcy order or in liquidation).

Creditors wishing to vote at the meeting must lodge a written statement of their claims with us at Cork Gully, 43 Temple Row, Birmingham B2 5JT no later than 12.00 noon on 31 December 1991.

Dated this 9th day of December 1991
David R Wilton
Joint Administrative Receiver

NOTICE UNDER SECTION 46 OF THE INSOLVENCY ACT 1986.

Registered name of company: Hollyoush Holdings Limited
Registered number: 2263528
Notice is hereby given that on 6 December 1991, D. C. Lovett and J. A. Talbot of 1 Victoria Square, Birmingham B1 1BD were appointed Joint Administrative Receivers of the above company by National Westminster Bank plc under the powers conferred in a debenture dated 11 August 1988 containing fixed and floating charges over the assets and undertakings of the company.
Dated this 6th day of December 1991.
D. C. Lovett
Joint Administrative Receiver

LEGAL NOTICES

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

In the Matter of the NEW YORK AGENCY
of the
BANK OF CREDIT AND COMMERCE INTERNATIONAL, S.A.

NOTICE OF CLAIMS PROCESS AND RELATED BAR DATE FOR FILING PROOFS OF CLAIM

NOTICE IS HEREBY GIVEN THAT the Superintendent of Banks of the State of New York (the "Superintendent"), pursuant to Section 620 of the Banking Law of the State of New York (the "New York Banking Law"), has made December 9, 1991 the first date on which claims against the New York Agency (the "Agency") of the Bank of Credit and Commerce International, S.A. ("BCCI S.A."), may be filed in accordance with the process for determining and paying claims against the Agency prescribed by Article XIII of the New York Banking Law (the "Claims Process"). THE LAST DATE AND TIME WHEN PERSONS MAY FILE CLAIMS AGAINST THE AGENCY IS MARCH 27, 1992, AT 5:00 P.M., EASTERN STANDARD TIME (THE "BAR DATE"). Only claims filed on or before the Bar Date will be considered by the Superintendent in accordance with the provisions of Article XIII of the New York Banking Law.

IF YOU ARE ENTITLED TO FILE A PROOF OF CLAIM BUT FAIL TO DO SO IN THE MANNER PRESCRIBED ON OR BEFORE THE BAR DATE STATED ABOVE, YOUR CLAIM WILL BE FOREVER BARRED, YOU WILL NOT BE ENTITLED TO ANY DISTRIBUTION ON THAT CLAIM AND YOU WILL RECEIVE NO FURTHER NOTICES REGARDING YOUR CLAIM. All claims against the Agency of whatever character, whether secured or unsecured, liquidated or unliquidated, fixed or contingent, must be presented in the Claims Process.

1. GENERAL

The Superintendent took possession of the business and property of the Agency on July 5, 1991 pursuant to Section 606 of the New York Banking Law and is currently taking steps to effect the complete liquidation of the Agency.

2. WHO MAY FILE

Any person having a claim against the Agency, or such person's duly appointed and authorized personal or legal representative, may file a Proof of Claim in respect of each claim arising out of a distinct transaction or series of transactions with the Agency, regardless of when such claim arose or the nature or type of such claim (subject to Section 3 below). Where more than one person is interested in or is making a claim, then all must complete and file a Proof of Claim together. All claimants must file a Proof of Claim in the Claims Process, even if a claim was previously made known in some other way to the Agency or to New York State Banking Department staff.

3. WHO MAY NOT FILE

A person may not file a Proof of Claim in respect of any of the following:

(a) a claim arising out of transactions with offices of BCCI S.A. other than the Agency or out of transactions with entities affiliated with BCCI S.A. in any other way;

(b) a claim not representing an enforceable legal obligation against the Agency if the Agency were a separate and independent legal entity; or

(c) a claim representing an amount due or other liability to another office or branch of, or wholly owned (except for a nominal number of directors' shares, if any) subsidiary of, BCCI S.A.

Persons having a claim that falls into categories (a), (b) or (c) above may need to pursue it in separate and different proceedings not administered by the Superintendent and should contact Brian Smouha, Commissaire, BCCI, S.A., 25 Boulevard Royal, 2449 Luxembourg, for further information.

4. PROOF OF CLAIM REQUIREMENTS; PRIORITY OF PAYMENT ASSERTIONS

A person entitled to file a claim against the Agency must complete and file a Proof of Claim in the form adopted by the Superintendent, together with all supporting documentation specified in the instructions thereto, in respect of each claim arising from a distinct transaction or series of transactions with the Agency. All persons having claims for priority of payment shall make demand in writing for priority in the place indicated in the Proof of Claim.

If this notice was received by mail, it is accompanied by a blank Proof of Claim and the instructions relating thereto. Persons receiving this notice by publication or any other means may obtain a Proof of Claim and the instructions relating thereto by writing to the New York State Banking Department, c/o BCCI S.A., 530 Fifth Avenue, Seventh Floor, New York, New York 10036, Attention: Request for Proof of Claim. Persons requiring additional Proofs of Claim must make such copies for themselves. All Proofs of Claim are required to be prepared in the English language.

5. DEADLINE FOR FILING; WHERE TO FILE

The Bar Date, the deadline for filing all Proofs of Claim, is 5:00 p.m., Eastern Standard Time, on March 27, 1992. Each Proof of Claim must be either mailed or delivered to the following address:

Salvatore Morabito
Special Deputy Superintendent
New York State Banking Department
c/o BCCI S.A.
530 Fifth Avenue
Seventh Floor
New York, New York 10036

If mailed, a Proof of Claim must be postmarked on or before March 21, 1992. If delivered, a Proof of Claim must be received by the Special Deputy Superintendent or his staff on or before the Bar Date. NO PROOF OF CLAIM IS FILED UNTIL IT IS RECEIVED BY THE SPECIAL DEPUTY SUPERINTENDENT OR HIS STAFF.

6. FURTHER INFORMATION

If you have questions about this notice, or if you desire a Proof of Claim, you may contact by telephone either Salvatore Morabito at (212) 789-8620 or Harry J. Morpurgo at (212) 789-8661 during the hours of 9:00 a.m. to 5:00 p.m., Monday through Friday, or write to Mr. Morabito at the address given above. ALL OTHER QUESTIONS, SUCH AS WHETHER YOU SHOULD FILE A PROOF OF CLAIM OR TAKE ANY OTHER ACTION WITH RESPECT TO YOUR CLAIM, SHOULD BE DIRECTED TO YOUR ATTORNEY.

Dated: New York, New York
December 9, 1991

CLEARY, GOTTLIEB, STEEN & HAMILTON
Attorneys for the Superintendent of Banks of the State of New York
One Liberty Plaza
New York, New York 10006
(212) 225-2000

FULWOOD SOFT FURNISHING SERVICES LIMITED

NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at 1 East Parade, Sheffield, S1 2ET on 18 December 1991 at 11.00 am for the purpose of having laid before it a copy of the report prepared by the administrative receivers under Section 48 of the said Act.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:-

(a) they have delivered to Cork Gully at 1 East Parade, Sheffield, S1 2ET, no later than noon on 17 December 1991, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986, and

(b) There has been lodged at the office of Cork Gully any proxy which the creditor intends to be used on his or her behalf.

Please note that the original proxy signed by or on behalf of the creditor must be lodged at the address mentioned: photocopies (including faxed copies) are not acceptable.

D. J. Stokes
Joint Administrative Receiver
4 December 1991.

NO. 0012848 of 1991
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
In the Matter of HAMILTON RENTALS (UK) LIMITED AND in the Matter of the Companies Act 1985.

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 2nd December 1991 confirming the reduction of Capital of the above-named Company from £8,400,000 to £2,436,000 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Register of Companies on 11th December 1991.

DATED this 12th day of December 1991

Roller Zucker of
5 Broadhurst Gardens
London NW6 3QX
(Ref: DF)
Solicitors for the above-named company

ROADS REALISATION LIMITED (FORMERLY ROMAN ROADS LIMITED)
Company Number: 1443191

NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above named company will be held at West Bromwich Moat House, Birmingham Road, West Bromwich on 23 December 1991 at 11.00am for the purpose of having laid before it a copy of the report prepared by the administrative receivers under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.

Creditors are only entitled to vote if:

(a) they have delivered to us at Cork Gully, 43 Temple Row, Birmingham B2 5JT no later than noon on 20 December 1991, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and

(b) there has been lodged with us any proxy which the creditor intends to be used on his or her behalf.

Please note that the original proxy signed by or on behalf of the creditors must be lodged at the address mentioned: photocopies (including faxed copies) are not acceptable.

Dated: 6 December 1991.
John F Powell and
Ian N Carruthers
Joint Administrative Receivers

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Running risks of a male backlash

Mary Bogan on equal opportunities programmes

In the 1980s, an equal opportunities policy was the sign of a benevolent employer: in the 1990s, it is the sign of a shrewd one.

Equal opportunities measures are no longer an optional policy extra, designed to be kind to employees, but an essential part of human resource strategy designed to be good for business.

But while companies are recognising that it is in their own commercial interests to promote women, they fear that by taking positive steps, they run the risk of stirring up discontent among the male workforce.

Indeed, fear of the so-called "male backlash" is the reason some companies continue to reject positive action. But is the fear, as some suspect, an excuse for doing nothing, or is there a real danger of a male revolt?

Apart from being a highly charged term, male backlash is also a poor description of the dissent encountered by employers who adopt positive action.

"The term suggests that as soon as you announce targets for changing the composition of your workforce, you unleash a sudden, reactive force from men," says Bob Nelson, head of corporate management development at the BBC. "It suggests that men rise up in horror, fearful of their job opportunities. But that has not been the BBC's experience."

Male backlash also suggests an organised and deliberate attempt by men to derail companies' equal opportunities policies. Even in the US, where positive action programmes have been running for some time, no evidence of this has been reported.

This is not to say that all employees support positive action, or that fears that some men will feel threatened by the change are unfounded. But it is resistance – rather than revolt – that is likely to drive equal opportunities programmes off course.

Cynthia Cockburn, a researcher at City University, has spent two years studying the implementation of equal opportunities policies in four organisations, including a government department and a leading retail chain.

In her new book, "In the way of women – men's resistance to sex equality in organisations", she identifies two ways in which men resist change.

They may try to sustain a cultural resistance by trying, for example, to deny the importance of equal opportunity initiatives, saying women's complaints of inequality are unfounded and that men and women now compete on equal terms. Alternatively they may ignore the policy.

Frequently, the policy becomes the butt of ridicule while some men complain that it excludes them. "The women are OK, the black people are OK, even the disabled people are OK. But me, I'm white, male, average height – who do I turn to?"

Resistance may be passive or active. When women managers in the retail store planned a meeting to discuss their special interests, the chief executive received a barrage of complaints from male managers. He was forced to rule the meeting be held off company premises and out of office hours.

This illustrates, according to Cockburn, that when women say they are different from men, it is ruled out of order.

There is disappointment in store for female managers

Helen Anty, head of training and equal opportunities at London Weekend Television, gives another example of how women's concerns are often unacceptable to men. "If a women says she wants time off to take her children to the dentist, she's unprofessional. But when a man disappears to the Rugby World Cup, that's business."

Equal opportunities policies may also be derailed in more subtle ways through the use of "organisational levers", according to Cockburn's research. In the case of the retailer, for example, store managers were the key people in line for the top jobs in the 1970s.

In the 1980s, the store manager jobs were opened up to women, encouraged by positive action measures. So what has happened? Store managers are no longer the key people in the organisation and power has shifted to other areas such as the marketing and computer departments where few women work.

It is forces like these, says Cockburn, that help to explain why companies which enjoy great success with their equality programmes in the first two years, often find that progress tails off thereafter.

The difficulty that employers face is how to drive equal opportunities change through the organisation without alienating the very people who feel threatened by it but may also be responsible for its implementation.

Part of the answer is to manage equality change like any other cultural change – get commitment from the top; create a critical mass of support; build the change into the business.

Employees also have to understand fully the business case for equality and that targets, like those for women's entry into middle management, are simply an expression of where the company hopes to get in a given time. They are not quotas.

But US experience, according to Eleanor Haller-Jorden, managing director of New York-based human resources consultancy, the Paradigm Group, shows that successful positive action programmes also closely involve men in the process of change.

One US company which ran a women's group to examine flexible working arrangements to see how members could best combine work and family responsibilities, has now opened up meetings to men.

"In the US, in *particular*, where we have an increasing number of dual career couples, we can no longer assume that child care is a woman's issue. Men have caring responsibilities too," says Haller-Jorden.

Bringing men into change does not mean that initiatives like women-only training have no place, she says. Men need to understand the objectives of these policies.

The point is not that organisations have to treat the sexes in the same way. But they do have to treat them in an even-handed way that means men who take career breaks cannot have their job prospects penalised more heavily than women.

Child care facilities have to be opened to male and female employees and company pension schemes need to be overhauled to provide equal value benefits to all workers. It may also mean investigating men's complaints about unfairness.

At British Airways, concern about a concentration of women in some departments led the company to an examination of whether there were any artificial barriers blocking men's entry.

Equal opportunities policies can bring benefits for men and women but, as one personnel managers says: "There is just no escaping the fact you are always going to cheese some people off.

"We believe, though, that what we're doing is good for our business and so, in the end, we expect people to tow the line on this policy as they would any other that strengthens the company. We don't necessarily expect employees to change their attitudes, only their behaviour. They can say and do what they like at home, but not at work."

Executive pay

When the boss feels like a million dollars

Paul Taylor reports on the continuing debate over some of America's top corporate earners

Few issues arouse such widespread interest, and sometimes even passion, as how much people are paid – especially if millions of dollars are involved.

When the people in question are the top men of corporate America, in charge of business empires whose products are household names, like Time Warner, Coca-Cola, Disney, Reebok and Apple, interest can turn to fascination.

Graef S Crystal is a repentant poacher-turned-gamekeeper. For 18 years, he was a compensation consultant with Towers Perrin, the management consultancy, and helped build and maintain the one-way-only escalator that has ensured the pay packets of executives in the US only went up, no matter how they performed.

Crystal, who retired in 1987 to become an academic and to write and advise shareholder groups, now argues equally persuasively that the shareholder-owners of USA Inc have been duped.

His latest book, In Search of Excess – The Overcompensation of American Executives,* begins with an apologia. "If a company wanted to pay its top executives above market levels . . .I generally went along with the CEO's thinking," says Crystal, who was usually hired and paid by them anyway.

"I never focused very well on the fact that unless other companies were willing to pay their executives below market levels, the market would simply explode. And explode it did."

But the book goes way beyond a confession. It is a well researched, direct and sometimes witty look at US boardroom pay and it does not pull punches.

Among those whose compensation packages are scrutinised is Steven J Ross of Time Warner who had to outperform the market to earn a hefty bonus until the company switched to a scheme that would pay him millions for underperforming the market.

Steven Ross (top left) with (clockwise) Rand Araskog, Michael Eisner and Armand Hammer

Ross, who Crystal dubs "the Prince of Pay", received \$111m in 1990 through a combination of cash and the present value of history's largest stock option grant.

Rand Araskog, chief executive of ITT, made \$11.5m in 1990, even though Crystal says his performance was less than exceptional. "Araskog's huge base salary and bonus, coupled with his lavish restricted stock grants and option grants, have combined to make him one of America's highest paid CEOs," says the author.

But Crystal does acknowledge that some chief executives have earned their huge salaries. In a chapter entitled "The Good Guys", he singles out men like Paul Fireman, Reebok's founder, Anthony O'Reilly of H. J. Heinz, and Disney's Michael Eisner who turned around the ailing entertainment group.

Eisner's base salary is a modest \$750,000 a year but he has collected a fortune in bonuses and stock options by delivering a sparking compounded total return to shareholders of 38.9 per cent between October 1984 and March 1991.

Crystal is not against high pay *per se:* rather he rails against undeserved booty. One of his most surprising revelations, disproving the adage that "you can't take it with you", is that the late Armand Hammer of Occidental Petroleum set up a compensation package which will pay his estate \$2m a year until 1998.

By scrutinizing annual reports, proxy statements and other documents, Crystal painstakingly pieces together the often complex schemes used to disguise excessive boardroom pay and ensure wallets get fatter even when profits and share prices plunge. While US productivity has declined, he shows that American CEO's have played a fantastic game of pay 'leap-frog' – making a mockery of the concept of wage-creep.

Among the disturbing assertions made by Crystal are that

- In the last 20 years, the pay of American workers has stagnated while American CEO's have increased their pay more than 400 per cent.
- American chief executives earn 160 times more than the average worker, while their German counterparts earn 21 times more and, in Japan, just 16 times the average.
- The average American chief executive now receives \$2.8m a year while the corporate elite earn tens of millions of dollars. By contrast, Japanese chief executives earn an average \$300,000.

Crystal describes the modern American CEO as "a cross between an ancient pharaoh and Louis XIV – an imperial personage who almost never sees what the little people do".

They are served by "bootlicking lackeys", and paid so much more than the ordinary worker that the boss has no idea how most people live.

In Search of Excess is an exposé of what ails the modern American corporation; a preoccupation with compensation for its top executives.

In the final chapter Crystal offers a comprehensive programme for shareholder action and government oversight which he says would ensure that chief executives get what they deserve – and not a penny more.

* Published by Norton, price \$19.95

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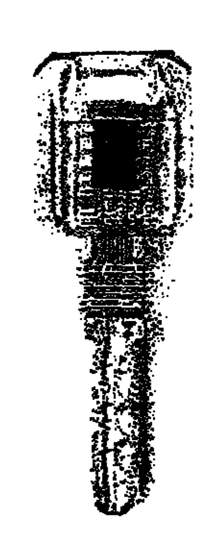

It is the first key to complement a sophisticated mechanical design with advanced electronics. The secret lies in a microchip in the key, offering a unique remedy in the event of key loss or theft. The respective locks need not be replaced. They are simply reprogrammed to reject the missing key.

This is the key to the world's finest capital market services.

Today, when large corporations need funds, they have many markets to choose from, and a bank that provides access to them all: Swiss Bank Corporation. You need that kind of coverage to take a global approach when the markets are changing so fast. Plus an ally with the ability to adapt and anticipate. And the confidence of having a powerful distribution network behind you. In short, you need what Swiss Bank Corporation does when it underwrites an average of three securities issues each day.

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Schweizerischer Bankverein
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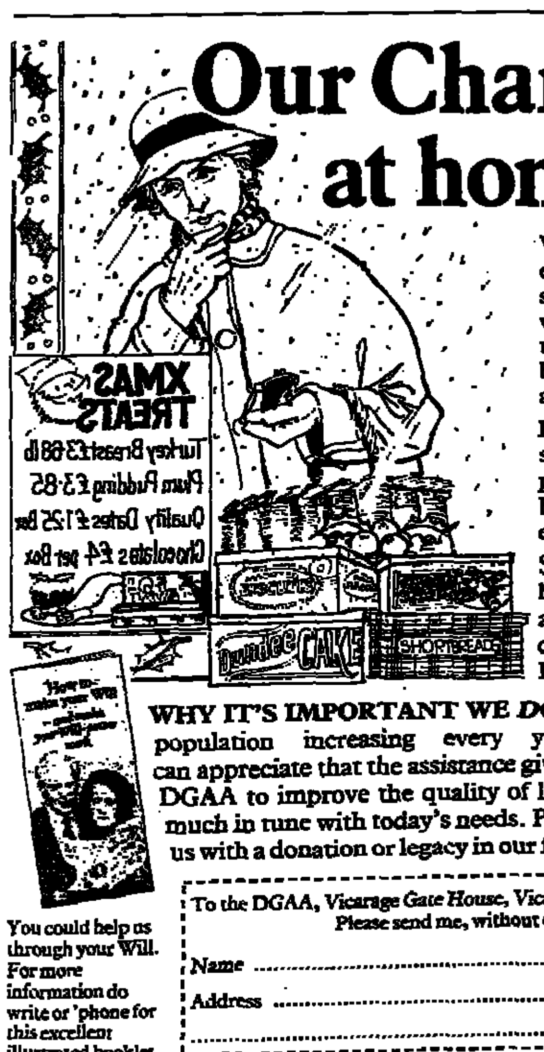
Our Charity begins at home – *theirs*



WHO DO WE HELP? Kindly, educated people many of whom have spent their lives helping others and to whom fate has dealt a cruel, unexpected blow, leaving them bereaved and frightened at a time of approaching frailty.

HOW WE HELP. By helping them stay in their own homes – not only by providing the necessary cash, but also by helping them to obtain all the entitlements to which they are due.

Some people cannot live in their own homes without serious risk, and to them a DGAA Home will bring safety and comfort. The DGAA runs 13 such Homes around the country.

WHY IT'S IMPORTANT WE *DO* HELP. With the average age of the population increasing every year, you can appreciate that the assistance given by the DGAA to improve the quality of life is very much in tune with today's needs. Please help us with a donation or legacy in our favour.

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Distressed Gentlefolk's Aid Association
Founded 1897
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THE WEEK AHEAD

ECONOMICS

Bundesbank to consider rate rise

A GLUT of information about the pace and extent of any recovery in the UK and US will become available this week.

In addition, all eyes will be on the regular meeting of the Bundesbank council in Frankfurt, which will consider whether to raise German interest rates.

A decision to do this would send a flicker of anxiety through several western capitals.

London and Paris, in particular, would worry that an increase in German rates might attract more international funds into the D-Mark, putting the pound and French franc under pressure and perhaps forcing an increase in UK and French rates when their economies are weak.

In Britain, economists will be especially interested in Thursday's announcement about unemployment trends.

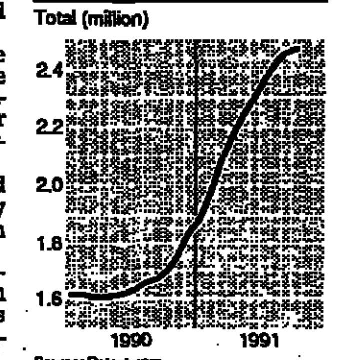
This is expected to show that the seasonally adjusted jobless total rose by about 30,000 in November, after a less-than-anticipated rise in October of 16,000.

A figure much higher than 30,000 would stoke new worries that Britain might be heading for a "double-dip" recession, as a result of which the first few months of 1992 would look extremely bleak.

In the US, details to be released today about last month's industrial production will provide a clue about a possible upturn.

UK unemployment

Total (million)



Source: Datastream

The highlights of the week are as follows. Market forecasts, as provided by MMS International, the business consultancy, are given in brackets.

Today: UK, release of December industrial trends survey by Confederation of British Industry; October industrial and manufacturing production (both up 0.3 per cent on month); November provisional retail sales volumes (up 0.5 per cent on month). US, November industrial production (down 0.1 per cent on month) and capacity use (79.4 per cent). France, November consumer prices index (up 0.2 per cent on month, 2.9 per cent year-on-year). Japan, October revised industrial production; November money supply growth (up 2 per cent, year-on-year).

Tomorrow: UK, November public-sector borrowing requirement (£2bn). US, Federal Reserve's open market committee meets; November housing starts (1.06m units) and building permits; third quarter non-farm production. Japan, October personal consumption and income. New Zealand, central bank forecasts published.

Wednesday: US, chairman of the Federal Reserve Board, Alan Greenspan, gives evidence to House of Representatives' Ways and Means committee; 1992 real capital spending. France, October industrial production (up 0.4 per cent on month); government statistics office publishes economic outlook.

Thursday: UK, November unemployment (up 30,000 on month); October unit wage costs (5.7 per cent up year-on-year, on basis of figures for three months to October); November vacancies; October average earnings (up 7.5 per cent year-on-year); November money supply growth (M0 up 0.3 per cent on month, 2.9 per cent year-on-year, M4 up 0.5 per cent on month, M4 lending up £2bn). US, October merchandise trade deficit ($6.8bn); exports ($35.8bn) and imports ($4.2bn); money supply growth for week ending December 9 (M1, down $2.5bn; M2, up $0.5bn; M3, up $2.2bn). France, Organisation for Economic for Economic Co-operation and Development publishes twice-yearly economic outlook. Germany, regular Bundesbank council meeting. Australia, October housing finance (up 1 per cent) and export price index. Canada, October merchandise trade surplus (C$200m).

Friday: UK, third quarter change in gross domestic product (up 0.3 per cent on quarter, down 2.3 per cent year-on-year). US, third quarter final GDP figures (up 1.7 per cent quarter on quarter, on an annualised basis); November Treasury Budget. Canada, November consumer prices index (up 0.3 per cent on month, not seasonally adjusted, and up 3.9 per cent year-on-year). Australia, October manufacturing input price index.

During the week: Germany, October producer prices (up 0.2 per cent on month, 2.8 per cent up year-on-year). Denmark and Finland are both due to release details of November consumer prices index.

Peter Marsh

PARLIAMENTARY DIARY

TODAY

Commons: Remaining stages of local government finance bill.
Lords: Further and higher education bill, committee. Motions on social security regulations.
Select committee: Public accounts – subject, pensions tax relief. Witness: Sir Anthony Battishill, chairman, board of Inland Revenue (Room 16, 4.30 pm).

TOMORROW

Commons: Remaining stages of the local government finance bill.
Lords: Welsh Development Agency bill, remaining stages. Local government bill, report stage. Motion on education support grant and teachers' pay and conditions regulations.
Select committee: Social security – subject, the operation of pension funds. Witnesses: Association of Mirror Group Pensions, former trustees of the Mirror Group Newspapers and Maxwell Communications Corporation pension funds (Grand Committee Room, Westminster Hall, 10.30 am).

Committees on opposed private bills: London Docklands Railway (Lewisham etc) (Room 6, 10 am); British Railways (No. 3) bill (Room 5, 10.30 am).

WEDNESDAY

Commons: First day of two-day debate on the Maastricht summit.
Lords: Debate on the Maastricht summit. Dog control and welfare bill, second reading. Question to government on specialist hospital units.
Select committees: Sittings of the House. Witnesses: Angela Rumbold, MP, and Bob Cryer, MP (Room 17, 10.30 am).

Trade and industry – subject, SIB annual report/investor protection. Witnesses: Securities and Investments Board (Room 18, 10.30 am).

Parliamentary commissioner for administration – subject, implications of the Citizen'sCharter. Witnesses: Francis Maude, MP, financial secretary to the Treasury, and officials (Room 19, 10.45 am).

Defence – subject, Royal Naval Reserve. Witnesses: MoD officials (Room 16, 10.50 am).

Energy – subject, consequences of electricity privatisation. Witnesses: British Coal Corporation; Professor Colin Robinson; Dr Dieter Helm (Room 8, 11 am).

Welsh Affairs – subject, cardiac services. Witnesses: Nicholas Bennett MP, Welsh Office Minister, and University College Hospital, Cardiff (Room 15, 11 am).

Education and Science – subject, student support. Witnesses: National Association of Citizens Advice Bureaux; National Union of Students (Room 15, 4.35 pm).

Employment – subject, industrial change: retraining and redeployment. Witnesses: employment department officials (Room 20, 4.15 pm).

Public accounts – subject, financial management in polytechnics. Witnesses: Sir John Caines, Department of Education and Science; Dr W. Stubbs, chief executive, polytechnics and colleges funding council (Room 16, 4.15 pm).

Committee on opposed private bill: British Railways No 3) (Room 5, 10.30 am).

THURSDAY

Commons: Final day's debate on the Maastricht summit.
Lords: Consolidated fund bill, all stages. Local government bill, report stage. Question to government on assistance to the Arab-Israeli negotiations.

Committee on opposed private bill: British Railways (No 3) (Room 5, 10.30 am).

FRIDAY

Commons: Adjournment debates.

Both Houses rise for the Christmas recess.

RESULTS DUE

NFC, the transport, freight and distribution company, is likely to turn in on Wednesday pre-tax profits for the year ended September of between £90m and £95m, down slightly from £97.7m a year earlier. This would be in line with the "best view" of results it gave at the interim stage.

Considering NFC's businesses are a sensitive barometer of economic activity, profits have held up remarkably well. Investor interest will focus on its comments about current business and the state of the economy. Its dedicated distribution division has, for example, continued to enjoy strong profit growth. This could now be under pressure if clients' volumes have eased under the impact of recession.

One tricky question for investors is how to value the stock. It is trading at a high p/e of more than 16, reflecting in part the "halo" effect of joining the FT-SE 100 index recently. Given a continuing sluggish economy, the rating could be hard to justify.

The success of US businesses is likely to boost the interim results of Gold Greenlees Trott, the advertising agency, which is due to announce tomorrow. Analysts are expecting a small rise from £2.24m to £2.5m, with a full-year forecast running at about £5.5m. Attention is also bound to turn to the performance of regional agencies, BDH and Babbit & Reiman, which should show evidence of a turnround after last year's losses.

There will be few surprises at Y J Lovell, the housebuilder which announces full-year results today. Last month's warnings of £62m worth of provisions leaves little to the imagination.

In the words of one analyst, "if you are going to lose money, why not lose a lot". Estimates vary from a loss of £20m to £50m, depending on how much is taken above the line. However, this should leave the group clear for a better 1992. Debt is estimated to be about £106m, including off-balance sheet commitments, against shareholders' funds of £65m.

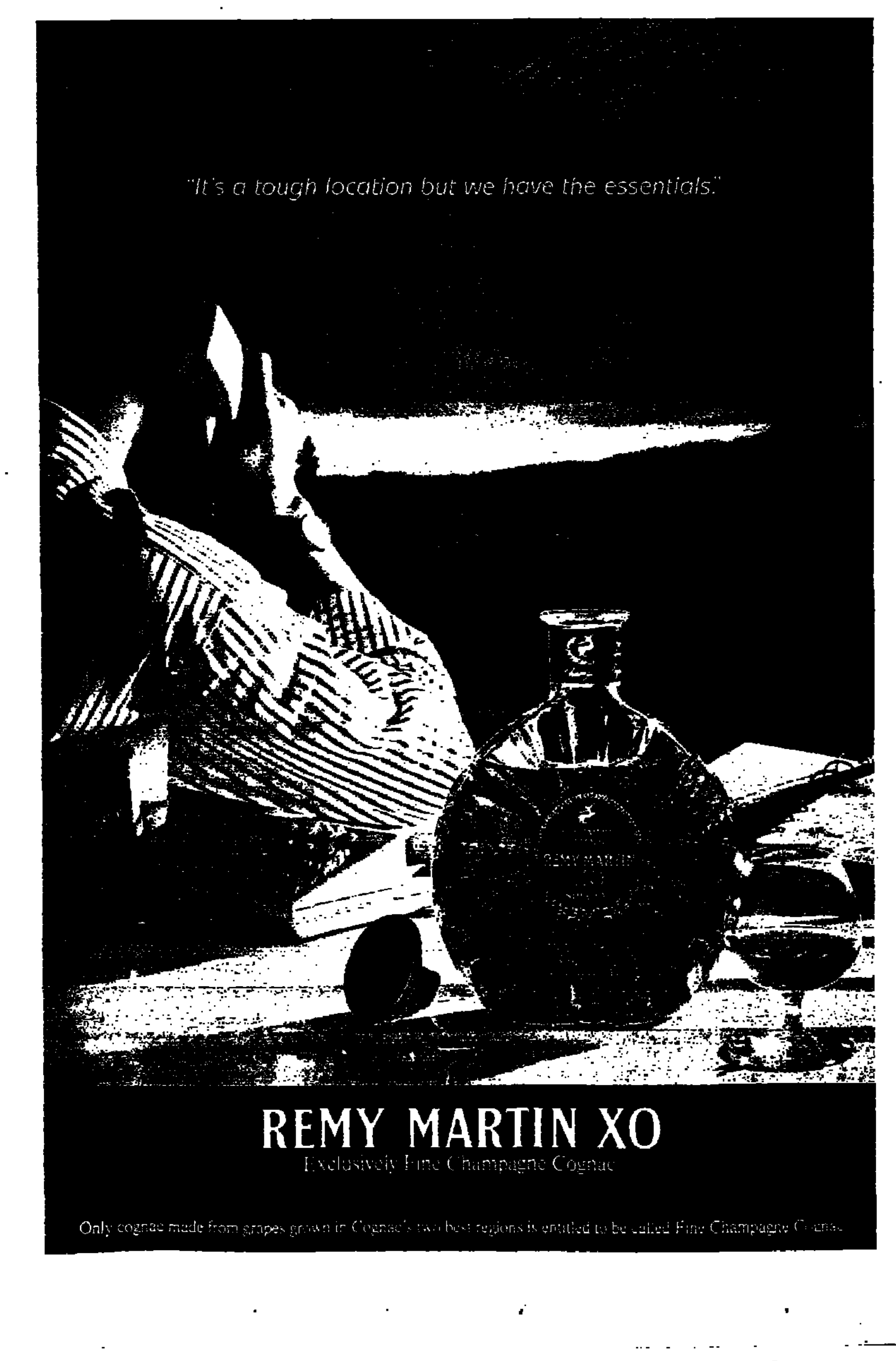
UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Drayton Asia Trust, 11, Devonshire Square, E.C., 11.00
Honeysuckle, 11, Regent Street, Leeds, 12.00
Tamaris, Dormy House, Ridgemount Road, Sunningdale, Berks., 9.30
BOARD MEETINGS:
Finals:
Genesis Chile Fd.
Hardys & Hansons
Lovell (Y.J.)
Interims:
Astra Hldgs.
Continuous Stationery
Harris (Philip)
Mosaic Invs.
Richmond Oil & Gas
United Inds.
Worthington
■ TOMORROW
COMPANY MEETINGS:
Barrett (Henry), Victoria Hotel, Bradford, 11.00
F & C Eurotrust, Exchange House, Primrose Street, E.C., 12.15
Keystone Inv., 33, King William Street, E.C., 11.00
Stanhope Properties, Mayfair Hotel, Mayfair Place, W., 10.00
Town Centre Securities, Town Centre House, Merrion Centre, Leeds, 2.30
BOARD MEETINGS:
Finals:
Berisford Intl.
Eurocopy
GWR
Lee (Arthur)
Sanderson Elect.
Yorkshire Television
Interims:
Batleys
Border Television
Brasway
Bromsgrove Inds.
Clayhithe
Faupel Trading
Gold Greenlees Trott
Halma
Melville Street Inv.
Southern Electric
Trimoco
■ WEDNESDAY DECEMBER 18
COMPANY MEETINGS:
Attwoods, The Pickeridge, Stoke Common Road, Fulmer, Bucks., 12.00
Blenheim, The Brewery, Chiswell Street, E.C., 12.00
Eesign Trust, The Brewery, Chiswell Street, E.C., 12.00
Manganese Bronze, 1, Love Lane, E.C., 12.00
BOARD MEETINGS:
Finals:
Chemring
Daily Mail & Gen. Tst.
Electronic Data Processing
TSB Channel Islands
Teredo Petroleum
United Scientific
Interims:
Abtrust Preferred Inc. Inv.
Andrews Sykes
Danae Inv. Trust
Eidos
Harmony Leisure
Northumbrian Fine Foods
Sterling Inds.
Westport
Yorkshire Electricity
■ THURSDAY DECEMBER 19
COMPANY MEETINGS:
Anglo Scandinavian Inv. Trust, Imperial Hotel, Russell Square, W.C., 12.00
Bailey (C.H.), Alexandra Docks, Newport, Gwent, 11.30
British Assets Trust, 1, Charlotte Square, Edinburgh, 12.30
Clyde Blowers, Livingstone Street, Clydebank, 11.30
Govett Strategic Inv. Trust, Shackleton House, 4, Battle Bridge Lane, S.E., 12.00
Greyfriars Inv., Knightsbridge House, 197, Knightsbridge, S.W., 11.00
IFICO, Cumberland Hotel, Great Cumberland Place, Marble Arch, W., 10.00
Low (Wm.), Faraday Street, Dundee, 12.00
Scottish Cities Inv. Trust, Imperial Hotel, Russell Square, W.C., 12.30
Stratagem, 41, Great Tower Street, E.C., 10.00
BOARD MEETINGS:
Interims:
BB & EA
Electric & General Inv.
First Technology
Gibbs Mew
Tinsley Robor
Verson Intl.
■ FRIDAY DECEMBER 20
COMPANY MEETINGS:
Albrighton, 135, Allport Street, Cannock, Staffs., 12.00
Drayton Cons. Trust, 9, Devonshire Square, E.C., 9.30
Lowland Inv., 3, Finsbury Avenue, E.C., 2.30
Millwall Hldgs., The Den, Coldblow Lane, New Cross, S.E., 10.00
BOARD MEETINGS:
Finals:
Brunner Inv. Trust
Chrysalis
Jersey Electricity
Kelsey Inds.
Kleinwort Charter Inv.
Star Computer
Interims:
Forminster
Ivory & Sime

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Bank of Tokyo (Curacao) Gtd. Flg. Rate Nts. Dec. 1991 $170.23
Barlows 0.825p
British Dredging 2.6p
Cambridge Group 0.45p
Cambridge Water 45p
Citicorp Overseas Fin. Gtd. Flg. Rate Nts. 1994 $15.16
FPL 60cts.
Harrisons & Crosfield 3.6p
Honeywell 41.25cts.
King & Shaxson 2.5p
Do. 5% Cm. 2nd Pf. 1.75p
Do. Cm. Ptg. Pf. 1.75p
Leeds Permanent Bldg. Society Flg. Rate Nts. 1998 £257.11
Lloyds Bank Ser. C Var. Rate Sb. Nts. 1998 £271.44
Louisiana Land & Expln. 25cts.
Merivale Moore 7.75p
Norex 2p
Pacer Systems 3cts.
Prestwick Hldgs. 1p
RTZ (Reg) 6p
Do. (Br) 6p
Do. 3.325% A Cm. Pf. 1.6625p
Do. 3.5% B Cm. Pf. (Reg) 1.75p
Do. 3.5% B Cm. Pf. (Br) 1.75p
Santander Fin. Issuances Sb. Und. Var. Rate Nts. $4028.65
Scotland Intl. Fin. 14¼% Fixed/Flg. Rate Nts. 1996 $34.82
Smart (J.) 5.8p
Sothebys Class A Lim/Vtg. (Reg) 15cts.
Southeast Banking Flg. Rate Sb. Nts. 1996 $340.45
Thomson Corp. 11.3cts.
Ulster Television 3.25p
Wagon Indl. Cv. Ptg. Pf. 3.625p
■ TOMORROW
Crown Eyeglass 2p
Ebara 7.2% Bds. 1998 Y180000.0
Hunting 4p
Land Securities 6p
Limited Inc. 7cts.
Mercury Asset Mngmt. 6.5p
Senior Eng. 9⅜% Un. Ln. 1994/99 4$\frac{11}{16}$pc.
Warburg (S.G.) 5.25p
Western Deep 12% Un. Deb. 1986/93 6pc.
■ WEDNESDAY DECEMBER 18
Bank Leumi (UK) Und. Prim. Cap. Flg. Rate Nts. $35.58
CSR 10cts.
F & C Eurotrust 1.18p
GB (Hldgs.) 1.75p
Halliburton 25cts.
Italian Int. Bank Sb. Flg. Rate Nts. 1996 $339.95
Manganese Bronze 1p
Nationwide Anglia Bldg. Society Sb. Flg. Rate Nts. 2000 £276.43
New Central Witwatersrand 90cts.
TIP Europe 1.26p
Welsh Indl. Inv. Tst. 4.5p
Woolwich Bldg. Society 11⅝% Sb. Nts. 2001 £122.71
Yasuda Tst. & Banking (Luxembourg) Flg. Rate Gtd. Nts. 2000 $175.38
■ THURSDAY DECEMBER 19
Bank of Scotland 1.7p
CNA Gallo 13cts.
Chamberlin & Hill 1.75p
EAB Fin. Gtd. Flg. Rate Nts. 1993 $168.39
Flextech 1.5p
Fujitsu 7⅛% Bds. 1997 3$\frac{9}{16}$pc.
Govett American Endeavour Fd. 6.99cts.
GUS 25.5p
GUS A 25.5p
Keystone Inv. 10p
Leeds Permanent Bldg. Society Flg. Rate Nts. 1996 £260.22
Nationwide Anglia Bldg. Society Sb. Flg. Rate Nts. 2004 £265.46
North Amer. Gas Inv. 1.125p
Pfizer 33cts.
Stratagem 4.5p
Unilever FL1.48
■ FRIDAY DECEMBER 20
Alcan Aluminium 15cts.
Amber Day 1.8p
American Cyanamid 37.5cts.
American Intl. 12.5cts.
Assoc. British Ports 11⅞% Bds. 2011 £461.99
Burmah Castrol Cap. (Jersey) 9½% Cv. Cap. Bds. 2006 (Reg) 4¾pc.
Do. (Br) 4¾pc.
Drayton English & Intl. Tst. 0.8p
Enron 65cts.
Essex Water 10% Db. 1992/94 5pc.
Do. 7¾% Db. 1991/93 3⅞pc.
Do. 5% Perp. Db. 2½pc.
Do. 4% Perp. Db. 2pc.
Do. 3½% Perp. Db. 1¾pc.
Do. 5% Db. 1986/91 2½pc.
Do. 8% Db. 1991/93 4pc.
Do. 10½% Db. 1994/96 5¼pc.
Fleming Japanese Inv. 1p
Fleming Universal Inv. 0.6p
Greyfriars Inv. 4p
Int. Resort Hldgs. 2.5p
M & G Amer. Recovery 1.012p
Marine Midland Flg. Rate Sb. Nts. 2009 $145.35
Mid Southern Water 83.9p
Do. N/Vtg. 83.9p
Mount Charlotte 10¾% 1st Mtg. Db. 2014 5⅜pc.
NSK 7.05% Bds. 2000 Y176208.0
Overseas Inv. Tst. 1.75p
Riggs National Flg. Rate Sb. Nts. 1996 $146.93
Riverview Rubber Ests. 10sen
Scottish Cities Inv. 20p
Do. A N/Vtg. 20p
Standard Chartered Und. Prim. Cap. Flg. Rate Nts. £130.89
Taiwan Power Flg. Rate Nts. 1992 $339.95
Thames Television 2.5p
■ SUNDAY DECEMBER 22
LASMO 10⅜% Db. 2009 5$\frac{3}{16}$pc.



CONSTRUCTION CONTRACTS

New life for London landmark

KYLE STEWART has won a contract worth around £20m to undertake the conversion of the former Hoover factory in Perivale, west London, and transform it into a superstore for Tesco Stores and the offices for business use.

The Grade 2 listed art deco office building, constructed in 1932 and fronting on to the A40 Western Avenue, will be retained along with an adjoining listed property and will be refurbished to provide some 4,650 sq metres of business space.

The derelict factory buildings at the rear will be demolished and a 5,853 sq metre Tesco superstore will be constructed. Parking for some 850 vehicles will be provided including 250 spaces in a new underground car park, which is being constructed as part of the project.

Traffic and access improvements will be included in the scheme along with community benefits including a creche for the children of people working locally.

The architectural themes on the original main office building will be recreated on the northern and western external facades of the new building with the store front entrance replicating the "sun burst" pattern. The building's front lawn and rose garden will also be restored as part of the extensive landscaping provisions for the project.

Enabling work is already being undertaken by Kyle Stewart and work is to commence on the main project in early January with completion due next winter.

£25m orders for Trafalgar House

TRAFALGAR HOUSE CONSTRUCTION has recently been awarded a batch of contracts with a combined value of over £25m. The largest of these is a £7.8m contract, awarded by Cambridgeshire County Council, for the construction of a two-storey business studies block and a two-storey library block and college hall at the Cambridge Regional College.

In the South West a £3.82m design and construct contract has been awarded by Dolby Laboratories Inc at Wootton Bassett, Swindon, for a two-storey office and production area to form its new UK headquarters.

In the North and Midlands a £2.7m design and construct contract has been won involving the extension of the riverside quay at Tyne Dock.

Other regional contracts include the construction of a gymnasium and technology building at Barnardos Meadows School, Southborough in Kent, and several smaller infrastructure and building contracts.

Elsewhere in the division, Trafalgar House Interiors has won a £2.1m contract to fit out the auditorium and meeting rooms at the British Library in Euston, London.

Cleveland Structural Engineering has won three contracts with a value of £4.65m. The largest of these, for main contractor Edmund Nuttall, is to design, supply and install a set of Mitre gates and 13 sluice gates to form part of the tidal barrier scheme across the River Colne at Wivenhoe near Colchester.

Major Malaysian office development

TAYLOR WOODROW has started work on a second major office development in Malaysia for the Sime Darby Group.

The latest contract, worth over £12m, is a triple-tower complex up to 15 storeys high at Subang Jaya, on the outskirts of the federal capital, for Tractors Malaysia (1982), a Sime Darby subsidiary.

The project is next door to the Twin Towers office building, completed by Taylor Woodrow in 1986 for United Estate Projects, another Sime Darby company.

Both contracts were awarded to Teamwork Corporation, Taylor Woodrow's Malaysian subsidiary, which has been appointed management contractor for the new development. Due for completion in summer 1993, the building will provide 28,000 sq metres of gross floor area.

To meet client needs, Teamwork will adopt a total "top-down" construction technique for the first time.

Mr Bruce Russell, Taylor Woodrow International's London-based director in charge, said: "This is a technically-challenging method which involves constructing the ground-level first and then excavating and building a four-level basement car park below this, while at the same time erecting the triple-tower superstructure above."

The substructure will be founded on reinforced concrete bored piles and comprise a four-level car park bounded by an 800mm thick diaphragm wall. The treble-tower superstructure will comprise 15, 10 and five storeys of reinforced concrete-framed construction with waffle slab floors and roof.

External elevations will be predominantly curtain walling, with relief in the form of spray tile and aluminium composite cladding panels.

The contract also calls for a separate three-storey structure, built on the roof of an adjacent underground car park, providing recreational facilities for occupants of both the new complex and Twin Towers.

£12.5m workload for Hall & Tawse

HALL & TAWSE GROUP, the construction arm of Raine Industries, has been awarded contracts worth £12.5m.

Hall & Tawse Scotland has increased its order book by nearly £8m. Work includes the construction of a three-storey open plan office extension and alterations to the adjacent building for Brown & Root Vickers in Aberdeen.

Two housing contracts have also been won. A contract for over £1m has been awarded by Hanover Housing Association for a sheltered housing scheme in Motherwell; and Grampian Regional Council has placed a £500,000 contract to build 14 houses in Kincardineshire.

Other contracts won by Hall & Tawse Scotland include an £800,000 contract to build a leisure centre at Penicuik for Midlothian District Council; and a £1.6m contract to modify the air conditioning and build a rooftop plant room at BP's offices in Aberdeen.

Hall & Tawse Partnership has signed a £2.9m joint venture housing deal with Test Valley Rural Housing Association and Test Valley Borough Council to build 75 homes for rent and shared ownership sale to local people in four Hampshire villages.

Motorway project in Wales

KIER CONSTRUCTION and HOCHTIEF have in joint venture won a £38m contract to construct the Briton Ferry to Earlswood stretch of the M4 in Wales.

The project, for the Welsh Office, will comprise two viaducts, a bridge across the River Neath, approximately 1.8 kilometres of dual two-lane motorway and two kilometres of slip roads.

The Welsh Office is currently considering an alternative design for the bridge proposed by the winning joint venture which, if accepted, will reduce the cost by a further £1.3m.

Work is due to begin early in the New Year with completion scheduled for early 1995.

Beazer Construction North East has been awarded a £3m contract by Yorkshire Water Services to carry out works on the second phase of the Castleford area sewage treatment works.

The project involves the construction of two 27 metre diameter biological filter beds, two 25 metre diameter humus tanks, three precast concrete pumping stations, an inlet works, various distribution chambers and all associated pipework.

The contract began in November and has a 12 month duration.

Kier and Beazer are both members of the CHB Group.

Water works

STARKSTROM, based in Strathclyde, has won three water and sewage contracts for motor control centres and SCADA systems totalling £250,000.

The contracts have been awarded by Yorkshire Water and Borders Regional Council for sewage treatment works, and Grampian Regional Council, for a pumping station.

The freedom to form the future.
COSTAIN
Costain Dow Mac
PRECAST CONCRETE

ARTS

La fille mal gardée

COVENT GARDEN

La fille mal gardée looks in spanking form in its present revival. The dance is bright, quick, sure; characterisations are sunnily right - I thought Jonathan Burrows' portrayal of a centenarian notary's clerk last Tuesday night (when Mukhamedov claimed Colas for his own) a brief but madcap piece of doddering.

On Friday, Mr Burrows assumed Simone's clogs and fichu, and snapping with vitality, was quick of wit as of step, and plainly delighted to be playing to a brand new daughter, Nina Ananiashvili.

Miss Ananiashvili is our first Russian Lise, and she is a treasure.

Miss Ananiashvili understands the sweetness of the girl's temperament, and seems joyfully responsive to Ashtonian style.

Her Bolshoy training means that movement will be writ large (but not coarse), and her gazelle jump lifts the choreography as it has not been seen to soar since Nerina.

She savours the physical possibilities of the role quite as much as she does its dramatic sense, and each dance incident is fully stated, and beautiful in outline.

As actress, she plays with complete ease: she is at home in the part already, and whether churning butter or avoiding Alain's attentions or dreaming of matrimony and melting into Colas' arms, she touches our hearts. It is a most welcome debut.

Stuart Cassidy was her stalwart and devoted Colas.

He played the role as he danced it - with complete sincerity and an attractive innocence: the young farmer is a winningly direct character in this reading.

But the male honours of the evening must go to Stephen Jefferies, making his first appearance as Alain.

Mr Jefferies is, in his every dramatic assignment, touched by greatness.

His interpretative genius allows him to reassess a part, to find in it fresh and fascinating aspects of character, and moreover to communicate what become his truths with the most compelling naturalness.

Alastair Muir

Stuart Cassidy and Nina Ananiashvili

His Alain is a clod-hopper who longs to join a world which he does not really understand.

Alain's deadpan gaze can break into an ecstatic smile: he is an enthusiast who is constantly rebuffed yet who somehow remains eternally eager.

A tiny incident - Alain's not being allowed to get into the cart that takes Lise to the cornfield - becomes joyous for us as Mr Jefferies registers hope and then disappointment.

At every turn of the action, this extraordinary artist finds all the humour and pathos that lie in Alain's character, and his sorrow when he knows he has lost Lise is masterly in its simplicity.

It is a superb interpretation, and the only one truly to rival Alexander Grant's creation.

We are very fortunate.

Clement Crisp

The Paul Taylor Season

SADLER'S WELLS

The leading American modern-dance companies are each dominated by a single choreographer; and thus each reflects a single mind. Our larger troupes here, based on the principle that several chefs are safer than one, lack that courage and that authority. The Paul Taylor fortnight at Sadler's Wells, which ended on Saturday, showed 10 works made by Taylor between 1962 and 1991. Despite its up and downs, it amounted to something bigger than any British modern-dance troupe's season ever does.

The basic appeal of Paul Taylor's work - lyrical, athletic, musical - is simple. Too simple for many of the old-world sophisticates on the British modern-dance scene, alas. Taylor's works have no special "youth appeal," and he hasn't drawn big audiences here. This is strange, for in the U.S. he's probably the most popular of modern-dance choreographers today.

Stranger yet is how British audiences miss most of the ironies that run so powerfully through almost all Taylor's work. Only when you feel Taylor pulling you in two directions at once do you sense his full mastery. This season, for example, a few people (not many) admired *Nightshade*, a 1979 piece not seen here before, as the collage of overwrought nightmares it is - but almost no-one here found it funny too. But its horror stories are juicy and ludicrous; and in the U.S. viewers guffaw even as they shudder.

Likewise, though the London audience greets his new hit *Company B* as a loveable frolic (it's to Andrew Sisters songs), it sleeps through his 1985 *Sunset*. In fact the two are different views of the same topic: how things are between men and women in wartime. But few people here can see why *Sunset* is hailed in America as a great work. It starts with flirtations between guys and gals, but goes way beyond. It suggests that men are more inhibited, less natural, with women than with each other; and, like *Company B*, it is full of the irony that in wartime men and women are all blatant flirtation one minute, corpses and mourners the next.

The highs of a Taylor season are so unlike anything else we see here that I wish I didn't have to mention the lows. But here goes. Several Taylor classics - *Aureole* and *Airs* in particular - are currently undercast. Elie Chaib, in particular, is too old for almost all of his repertory: all his understanding does not compensate for his short, broken, effortful phrases. Taylor's other new work, *Fact and Fancy* is a big mess.

Sometimes Taylor's highs and lows co-exist side by side. *Syzygy*, a 1987 work subsequently, shows, in a flow of sheer dance, the many overlappings of Taylor's thought. It refers to disco dance, to release technique (frequently it looks like Trisha Brown), to Isadora Duncan and other post-Grecian dancing Bacchantes, to images of ballet from Petipa to Balanchine (sometimes with genders reversed) and more. It is about contrasting energies and the force-fields of gravitational systems.

Yet what is Taylor doing choreographing in this middle-aged-trendy way to a cliché-laden taped score? He seems to be making his own version of Twyla Tharp's smash-hit *The Golden Section* (from *The Catherine Wheel*). To see Taylor apparently taking a leaf from a junior choreographer's book is a creepy spectacle. Yet *Syzygy* is superlatively danced. Two of Taylor's senior dancers, Cathy McCann and Mary Cochran, hit new peaks this season. And, among the company's several excellent young men, Andrew Asnes - who dances the great "Tico-Tico" solo in *Company B* - is a marvel of powerful lyricism.

Alastair Macaulay

Dido and Aeneas

THE FORUM, BATH

The launching last week of Bath City Opera was modest but determined four performances of a production of *Dido and Aeneas* preceded by some staged excerpts from Handel's *Alcina*.

The new company, sponsored by (among others) the City Council, has its own orchestra, the Bath City Orchestra (previously the Georgian City Orchestra), and Klaus Donath (husband of the soprano Helen Donath) as music director.

The new company also has the producer-designer John Pascoe as its artistic director, and a new *Traviata* figures among its promised attractions.

Embarked upon in the teeth of end-of-year recessionary doom-and-gloom, the whole enterprise has a touch of madness about it and that, of course, is exactly what new operatic schemes so often need to get them going.

But there is also a grain of sound sense in it. In Germany, a city of Bath's size, character and heritage would consider itself incomplete without such a company; it is only Anglo-Saxon cultural puritanism that could possibly deem it a rash or unnecessary enterprise.

There is now a desperate shortage of smaller-scale opera in Britain (drastically increased by the removal from the scene of Kent Opera); any attempt to redress the balance deserves sympathetic encouragement.

So, a welcome for the new start. One hopes the company will learn from the mistakes of the inaugural production, which were numerous, and build on its successes, which were no less so.

Among the former is the choice of the Forum, a recently converted concert venue, as a home base the Forum's bathroomy acoustics spread a pall and a damper on vocal projection. Those effects were increased when singers were placed at the back of the raised, pseudo-Baroque single set.

Except when Della Jones, the Dido and Sorceress, was on stage, audible words were in drastically short supply.

Mr Pascoe, best known for his 1988 Covent Garden *Anna Bolena* with Joan Sutherland, had devised a rather fancy *Dido* production with swish costumes (a little *too* swish for the good student chorus from the London Trinity College) and artful props, the movement of which caused uncomfortable little scene-change pauses.

With the benefit of hindsight he might well have chosen to avoid these, and also an elaborate but unhelpful production-concept dependent on a single singer playing both Dido and Sorceress.

In spite of Miss Jones's consummate artistry this simply didn't work not because the notion is in itself unworkable, but because the production pretended that a single, double-faceted character was being explored, a nonsense impossible to sustain in musical and dramatic terms.

The good things about the evening were the soundness of musical values under Klaus Donath the strings-only ensemble firm, responsive and well-honed and the freshness of casting.

If Mr Pascoe makes as his goal the continued introduction to Britain of such lively, interesting new faces and voices as the American soprano Karen Poston-Sullivan (Alcina and Belinda) and countertenor Jeffrey Gall (Ruggiero and the *Dido* Spirit and Sailor), his efforts will quickly pay dividends.

Had the evening no other raison d'être, the chance to see and hear Della Jones at the peak of her powers, filling every word and note with searing eloquence, would triumphantly have provided one.

Max Loppert

Xue-Wei

QUEEN ELIZABETH HALL

This young Chinese-born violinist is not only a technician of a high order but a musician of assured poise, with plenty of insights to display. His fine-grained tone goes with a fine-drawn line, not broad or effusive but extremely precise; the dramatic silhouette, without extravagant peaks, is cool and clear.

All that was evident in his recital on Friday, which went from Mozart and Beethoven to Richard Strauss and a Wieniawski fantasy.

It would have been considerably more evident, however, with a partner who shared Xue-Wei's particular stamp. Instead he had the pianist Gordon Fergus-Thompson.

Now, Fergus-Thompson is a doughty performer of the romantic repertoire, good at large effects and vibrant colours, not over-finicky about small details. His is the kind of playing which resounds satisfyingly in the cavernous, somewhat unpredictable acoustic of the Queen Elizabeth Hall. Many passages in the early Strauss Sonata in E-flat, which is as much a pianist's piece as a violinist's, boasted a fine sweep and flair.

Not infrequently, but not often enough for musical comfort, Xue-Wei's delicately etched phrases succeeded in penetrating through that glittering texture. In Mozart's B-flat Sonata K. 378, where the piano is frankly the senior partner, Fergus-Thompson's taste for keeping everything swimming in pedal left the violin submerged far too often. Even in the sprightly G major Sonata of Beethoven (op. 30 no. 3) one had, so to speak, to hear the violinist with one ear and the pianist with another, while wishing heartily that each of them was playing in a different duo.

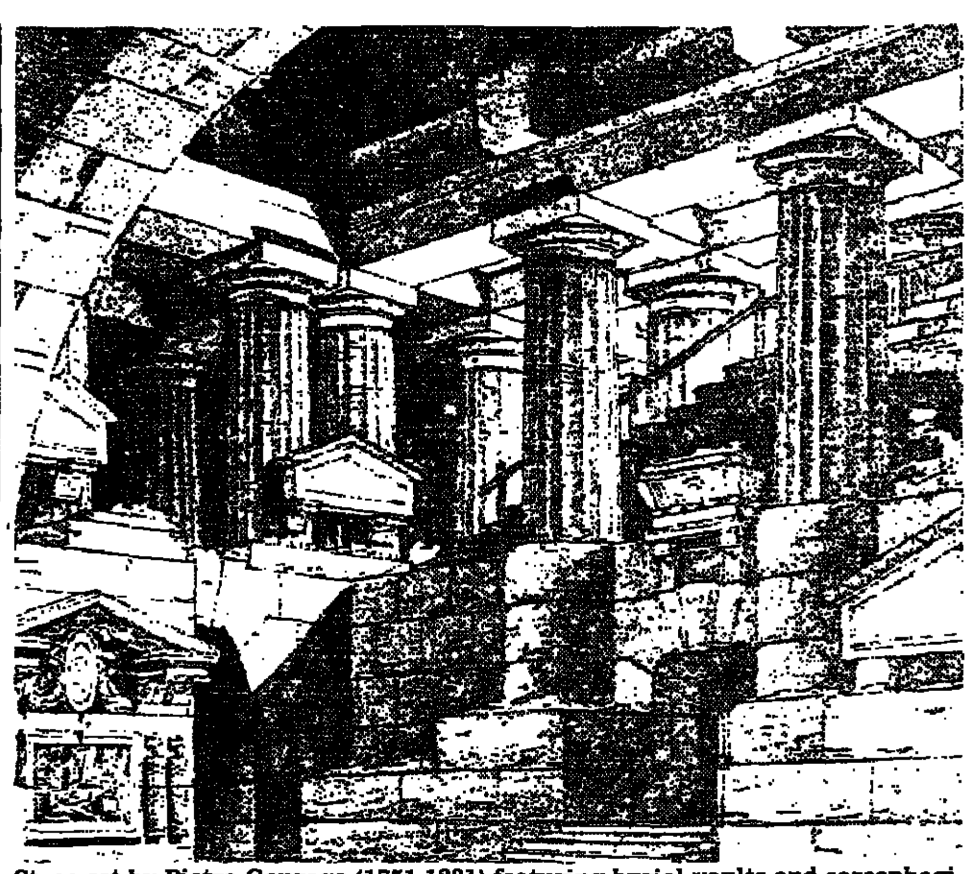
There was no significant *musical* disagreement between them, only a great gulf between their preferred sound-worlds.

The tricky QEH acoustic might have been the whole explanation: I gather that it is next to impossible for a pianist there to judge confidently how much room he or she is leaving for partners to be heard. In Wieniawski's "Fantaisie Brillante" on themes from Gounod's *Faust*, nonetheless, it was hard not to feel that the piano-part a fairly crude reduction of the orchestral original might have been tactfully reduced much more.

Xue-Wei's violin curvetted and sang, took the (tiresomely over-worked) arpeggios up to high harmonics with perfect poise, made the most of Gounod's tunes without wallowing in them: his mettle was admirable.

It will be a pleasure to hear him in different circumstances, and a relief.

David Murray



Stage set by Pietro Gonzaga (1751-1831) featuring burial vaults and sarcophagi, taken from 'Architecture and the After-Life' by Howard Colvin

ARCHITECTURE

Curl up with a tome

Colin Amery enjoys some recent publications

Perhaps Christmas is the time to contemplate things beyond the material world. One of the best of this season's recent crop of new architectural books is **Architecture and the After-Life** by Howard Colvin (Yale University Press, £45). Colvin is the doyen of architectural historians: not a day passes without consulting his biographical dictionary of British architects, and it is a joy to read him on a subject that has clearly interested him for a long time.

The very first time I had the pleasure of meeting Mr Colvin was in Hampshire when we both went to look at the ruin of William Wilkins's house, The Grange. What amazed me then, being less than half a scholar, was that Colvin was going on that afternoon to check in some remote churchyard the dates on a tombstone of some very arcane 18th-century architects.

It is this dedication to accuracy as well as his knowledge of the importance of funerary monuments that make his newest book such a pleasure. He starts his book with an account of the earliest megalithic tombs of pre-history and then proceeds to take us from them to the pyramids, the Taj Mahal, Baroque extravaganzas and on to the pious civic cemeteries of the 19th century.

It is a fascinating subject because it embraces both sides of man's nature: his desire to commemorate his life, and his aspirations for some unknown destiny after death. Only Howard Colvin could have elucidated so clearly the complications of secular patronage and its association with religious belief. This book, by looking at architectural history in terms of life and death, improves in one finely illustrated volume our understanding of architecture, this world and the world to come.

*

More worldly concerns are handsomely and evocatively recorded in the year's most sumptuous architectural book. Versailles by Jean-Marie Perouse de Montclos with photographs by Robert Polidori (Abbeville Press, with John Murray, £60). The story of the entire development of this palace, which the author calls the new Olympus, is a remarkable one. This book could easily be mistaken for a mere coffee table book with no substance. But that is not the case. I sat for hours with this heavy volume and was literally transported and informed at the same time. My only criticism is that sometimes the translation tends to the precious and some of the photographs tend too much towards the "art shot". But Versailles itself takes over and you are there.

The chapters on the gardens and the trianons offer a considerable amount of new information and the section on the recent restorations and the role of the decorative arts in France throughout the period of the building of the palace is exemplary. One is left wondering what has happened to national scholarship and its application to royal buildings in the UK – consider the dim state of Hampton Court and the horrendous falsity of the recent "restoration" of The Queen's House at Greenwich.

*

One area in which British scholars and publishers do lead the world is in the remarkable series of books, *The Buildings of England*. This is the series published by Penguin and completely masterminded by Sir Nikolaus Pevsner until his death in 1983. These guides are always known in my house simply as "Pevsners" and no journey is accomplished within these shores without the appropriate county volume to hand.

Since London is the one part of the country which has undergone so much change and rebuilding that Pevsner soon became out of date, its revision and reordering is in the hands of one of Pevsner's scholarly heirs, Bridget Cherry. Her latest volume is called **London 3, North West** (Penguin Books £25). It covers some of the remoter London boroughs and much of what was Middlesex. Harrow, Brent, Ealing, Hillingdon and even Hounslow turn out to be places of intense architectural interest. The older origins of these places make then appear as gnarled roots supporting the tree of a capital that has somehow grown out of control. Mrs Cherry sees all and is less judgmental than Pevsner, but that does not make for a dull read – it only makes the book almost too full of information for one volume.

*

Two books that are completely in tune with the times should be in the stockings of civilised building buffs this year. One is **The Great Country Houses of Central Europe, Czechoslovakia, Hungary and Poland** by Lord Michael Pratt (Abbeville Press, £55). The other is **Moscow Revealed** by John Freeman and Kathleen Burton (Doubleday, £30). Both these books offer tempting and well documented glimpses of treasures that have been forgotten or neglected throughout the decades of communism.

Lord Pratt's book is the more scholarly and informed of the two, but the slimmer volume on Moscow hints at acres of architectural temptation. Neither book can be up to date on the political situations in these erstwhile communist countries and inevitably their authors are not prepared to do more than speculate about the future of the built heritage of Eastern Europe. It is a crucial cultural area and I suspect that these volumes represent the tip of an iceberg about the forgotten half of Europe.

*

One book that does deal with the future of our civilisation is a highly illuminating book of previously unpublished essays by Professor Sir Ernst Gombrich, **Topics of Our Time – Twentieth Century issues in Learning and in Art** (Phaidon, £25). I particularly recommend Professor Gombrich's essay, a plea for the conservation of our cities in which he revitalises the message of John Ruskin to make it very relevant today. Good reading for the chairman of the Arts Council and the developers of Canary Wharf – only it is probably too late for them . . .

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

■ AMSTERDAM

Muziektheater 20.15 Dutch National Ballet in Rudi van Dantzig's 1988 *production of* Swan Lake, repeated on Wed afternoon, Thurs, Fri and Sun afternoon. Tomorrow and Sat: Luisa Miller (6255 455/credit card bookings 6211 211)

■ BARCELONA

Gran Teatre del Liceu 21.00 Roberto Abbado conducts Giuseppe de Tomasi's production of La boheme. Until Dec 30, with *next performances* on Wed, Thurs and Sat (412 1466)

■ BERLIN

MUSIC

Komische Oper 20.00 Harry Kupfer's production of Carmen, *also Wed. Thurs: Wolfgang Rennert* conducts Die schweigsame Frau. Fri: Yehudi Menuhin conducts the Philharmonia Hungarica. Sat and Sun: Ashkenazy *conducts the* Berlin Radio Symphony Orchestra (East Berlin 2292 555)
Staatsoper unter den Linden 19.00 The Nutcracker, also Sun. Tomorrow: Hansel and Gretel. Wed: Der Freischutz. Thurs: Il barbiere di Siviglia. Fri: La traviata. Sat: Jenufa (East Berlin 2004 762)
Deutsche Oper 19.30 L'elisir d'amore. Tomorrow: Advent concert. Wed: Elektra. Thurs and Sat: Hansel and Gretel. Fri: Cinderella. Sun: Lohengrin (West Berlin 3410 249)

THEATRE

East Berlin: on Thurs, the Maxim *Gorki Theater presents the first* night of a new production of Heiner Muller's play Leben Gundlings Friedrich von Preussen (also Fri). *(2082 748). Thurs is also the first* night of the Volksbuhne's new production of Buchner's 1836 play Woyzeck (282 3394). This week's repertory at the Berliner Ensemble includes a Kurt Weill evening on Wed, The Captain of Kopenick on Fri, Mother Courage on Sat and The Threepenny Opera on Sun (2827 712). The Deutsches Theater has Ionesco's The Bald Prima Donna tonight and Thomas Langhoff's new production of Kleist's Kathchen von Heilbronn on Thurs (2871 225).
West Berlin: Alfred Kirchner directs a new production at the Schiller Theater of Gerhart Hauptmann's 1911 tragi-comic social drama Die Ratten, opening on Wed, repeated on Fri (3185 236). The Theater des Westens has daily performances (except Mon) of Stephen Sondheim's musical Follies (3190 3193).

BIRMINGHAM

■ **Symphony Hall** 19.30 Simon Rattle conducts the CBSO's First Symphony and Walton's Cello Concerto, with Lynn Harrell. Tomorrow: Yuri Bashmet plays Berlioz's Harold in Italy. Wed: *Andrew Davis conducts* The Dream of Gerontius (021-212 3333)

■ CHICAGO

Civic Opera House 19.30 Antonio Pappano conducts Lyric Opera production of L'elisir d'amore. Also Wed and Sat. Tomorrow and Fri: *Catherine Malfitano in Madama* Butterfly (332 2244). Tomorrow, Thurs, Fri, Sun in Orchestra Hall: Boulez conducts the Chicago *Symphony (435 6666)*

■ LONDON

Covent Garden 20.00 Frederick Ashton's Royal Ballet production of La fille mal gardee, with Lesley Collier and Irek Mukhamedov. Tomorrow and Thurs: Mitridate. Wed and Fri: Le nozze di Figaro (071-240 1066)
Coliseum 19.30 Michael Lloyd conducts a revival of David Pountney's production of Rimsky-Korsakov's Christmas Eve, restaged by David Sulkin, with a cast including Richard Margison, Anne-Marie Owens and Gordon Sandison, also Fri. Tomorrow and Thurs: Le nozze di Figaro. Wed and Sat: Die Fledermaus (071-836 3161)
Royal Festival Hall 19.30 Andrew Davis conducts the BBC Symphony Orchestra and Chorus in Ravel's complete Mother Goose, Milhaud's Le boeuf sur le toit, Debussy's Clarinet Rhapsody with Colin Bradbury and Poulenc's Gloria with Amanda Roocroft. Tomorrow: Maazel conducts Mahler's Second. Wed: Sawallisch conducts the LPO, with Maurizio Pollini piano soloist (071-928 8800)
Barbican 19.00 Richard Hickox conducts Mozart's arrangement of Handel's Messiah. Tomorrow: Elgar's Starlight Express. Thurs and Fri: Hickox conducts Christmas classics. Sat and Sun: Labeque Sisters (071-638 8891)

■ MILAN

Teatro alla Scala 20.00 Lieder *recital by Bernd Weikl* accompanied by Helmut Deutsch. Tomorrow, Thurs and Sun: Parsifal. Wed, Fri and Sat: John Cranko's *production of Romeo and Juliet* (7200 3744)

■ NEW YORK

Blue Note Jazz Club and Restaurant
Tonight marks the debut of the New York Jazz Orchestra conducted by Angel Rangelov, with shows at 21.00, 23.00 and 01.00. Tomorrow till Sun: Ruth Brown, Tony Award-winning queen of R&B. *Next week:* Monty Alexander Trio. New Year's Eve till Jan 5: Manhattan Transfer (475 8592)
Avery Fisher Hall
On Thurs, Fri and Sat, Erich Leinsdorf conducts a Stravinsky, Mozart and Strauss programme with the New York Philharmonic (875 5030)
Carnegie Hall
Tonight at 20.00: Andre Watts piano recital (247 7800)
Metropolitan Opera
Tonight's performance is Aida, also Fri. Tomorrow: Idomeneo. Wed and Sat: Entfuhrung. Thurs: world premiere of John Corigliano's new opera The Ghosts of Versailles (362 6000)

■ PARIS

Palais Garnier
William Christie conducts tomorrow's performance of Handel's Messiah with his period instrument ensemble Les Arts Florissants. Wed, Thurs, Fri and Sat: *Nureyev's production of* Romeo and Juliet, runs till Dec 31 (4017 3535)
Opera Bastille
There are two productions in repertory this week: Bob Wilson's staging of Die Zauberflote tonight, Wed and Fri. Myung-Whun Chung *conducts* Yannis Kokkos's staging of Boris Godunov tomorrow, Thurs and Sat. All performances start at 19.30 (4001 1616)
Chatelet
There are two concerts tonight: in the Auditorium at 19.00, the Ysaye Quartet plays string quartets by Mendelssohn, followed at 20.30 in the main theatre by the Labeque Sisters in a programme for two pianos and percussion. The rest of the week is taken up with performances of West Side Story, and an evening with Stephane Grappelli on Thurs and the Michel Legrand Trio on Fri (4028 2840)
Salle Pleyel
Armin Jordan conducts tonight's Mozart concert with the Ensemble Orchestral de Paris, with piano soloist Maria Tipo *(4561 0630). On* Wed and Thurs, Gidon Kremer plays Sofia Gubaidulina's Offertorium with the Orchestre de *Paris conducted by David Zinman* (4563 0796)
Opera Comique
Starting on Wed, there are daily performances of *a musical* revue starring Gabriel Bacquier (4286 8883)

■ VIENNA

MUSIC

Statsoper 19.00 Bruno Weil conducts Die Zauberflote, with Barbara Bonney, Hellen Kwon, Heinz Zednik and Boje Skhovus. Tomorrow: Nutcracker. Wed: *Arabella. Thurs: Il barbiere di* Siviglia. Fri: La boheme. Sat: Carmen. Sun: La traviata (51444 2960)
Volksoper 19.00 Der Zigeunerbaron. Tomorrow: Ein Walzertraum. Wed: Das Land des Lachelns. Thurs: Cinderella. Sat: Donald Runnicles conducts Christine Mielitz's new production of Lady Macbeth of Mtsensk (51444 3318)
Musikverein 19.30 Alfred Eschwe conducts the Tonkunstler Orchesra in music by J C Bach, Haydn, Mozart and Beethoven. Tomorrow: Martin Haselbock conducts Alexander's Feast and Ode to St Cecilia's Day by Handel, in arrangements by Mozart. Sun morning: Nikolaus Harnoncourt *conducts Concentus Musicus Wien.* Sun evening: Ingo Metzmacher conducts a concert performance of Schreker's Christophorus (505 8190)
Konzerthaus 19.30 Haydn Trio, with Siegfried Schenner clarinet, play chamber music by Mozart *and Schumann. Wed: an evening* of Dvorak chamber music. Thurs: piano recital by Elisabeth Leonskaja. Sun: Adam Fischer *conducts a concert performance* of Mozart's Il re pastore (7124 6860)

THEATRE

Claus Peymann's production of Goethe's Clavigo can be seen at the Burgtheater tonight and again on Wed, with Feydeau's Hotel Ultimus on Fri. A new production of Brecht's Baal which is directed by Manfred Karge is scheduled for the Akademietheater on Friday (51444 2218)

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1230-1300 Business Morning
1330-1400 Business Day
2000-2030 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman
2300-2330 World Business Today
0100-0130 *Moneyline*

Super Channel
0600-0620 Business View
0630-0700 Business Insiders
2130-2200 (Tues) East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Wed) FT Business Weekly - (global business report with James Bellini)
2130-2200 (Thurs) Talking Heads - International Issues

Sky News
1200 International Business Report
1130, 1730, 2130, 0430, 0530 (Thurs) FT Business Weekly

SATURDAY

CNN
0730-0800 Moneyline
0900-0930 World Business This Week - a joint FT/CNN production
1540-1610 Moneyweek
1900-1930 World Business This Week

SUNDAY

Super Channel
1800-1830 FT Business Weekly

Sky News
1330, 1630, 2030, 0030, 0230 FT Business Weekly

CNN
1800-1830 World Business This Week

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Monday December 16 1991

Soviet nuclear fission

PERHAPS never has a western leader visited Moscow in such dramatic and critical circumstances as the US Secretary of State, Mr James Baker, who arrived there last night. The Soviet Union is living its last hours. This fact obliges the west to rethink its entire relationship with Russia, and with the other republics that hitherto made up the Union.

One thing has not yet changed. The west's most acute and urgent concern is with the Soviet armed forces, and above all with their nuclear arsenal. But its fear is no longer primarily that this formidable military machine might be mobilised for an all-out attack on it. It is, on the contrary, that the machine may no longer be under any political control at all, and that its component parts may be deployed against each other, or sold off to the highest bidder.

Up to now Soviet nuclear weapons have been protected by a very effective centralised command and control system against any unauthorised access, seizure or major accident. But, as an admirably and chillingly lucid study* just published by the Kennedy School of Government at Harvard points out, this system is "at root a social and political creation", which "cannot be assumed capable of standing apart from turmoil throughout the society within which it is embedded". The current process of social, political and economic disintegration is forcing everyone in the former Soviet Union, and by no means least in the Soviet armed forces, to re-examine their most basic loyalties and moral codes.

Alarming prospect

It is a very alarming prospect, which external powers can scarcely hope to control but to which they cannot remain indifferent. Luckily they do have some leverage, in that the new elites in the different republics are desperate for economic aid and international recognition, and also avid for western advice. Optimal use of this leverage should now be the most urgent foreign policy consideration for all western governments. No doubt it is the main objective of Mr Baker's visit.

The Kennedy School study provides some well thought out suggestions. The "single most important step that could be taken", it says, would be prompt implementation of last September's Bush-Gorbachev proposals for the removal and destruction of non-strategic weapons. The authorities in the other republics must be persuaded that it is in their interest to allow such weapons to be withdrawn to deactivation sites in Russia by March 1 1992, or – where practical difficulties preclude that – disabled in place. Help should be requested from the International Atomic Energy Agency in monitoring and safeguarding these weapons. This would enhance security against unauthorised seizures, and allow the republics to accede to the Nuclear Non-Proliferation Treaty as non-nuclear weapons states (as Ukraine, Belorussia and Kazakhstan have all said they intend to do).

Urgent priority

Another very urgent priority must be to prevent elements from the Soviet nuclear materials and skills from finding their way on to world markets. This will require close intelligence liaison between western and ex-Soviet authorities, the adoption and enforcement by the republics of strict export control legislation, and an invitation to the republics to join international export control regimes.

Authorities able to agree on and enforce such policies are hardly likely to emerge in the midst of economic catastrophe, and especially not if the cadres of the armed forces and the nuclear industry see themselves as economic victims. An orderly build-down of Soviet military power therefore requires economic assistance from the west, which will have to be on a much larger scale than any provided so far, although still cheap compared to the cost of defending the west against Soviet military power in the past. The way in which such assistance can be most effective will be considered in a further leading article this week.

* *"Soviet Nuclear Fission: Control of the Nuclear Arsenal in a Disintegrating Soviet Union", CSIA Studies in International Security, No 1*

Unisex in pensions

THE European Court judgment last year on the equalisation of men and women's pension rights in the case of Barber v Guardian Royal Exchange created considerable uncertainty among British industrialists about retrospective pension costs. The decision at Maastricht to amend the original Treaty of Rome in order to clarify the ambiguities in that judgment will thus be welcomed by many employers who have yet to equalise retirement ages.

Until the Maastricht summit, it had generally been assumed that clarification would have to await the outcome of three test cases in the European Court. The fact that the Barber judgment was perceived within the Community to be an essentially British problem militated against the much neater solution of a treaty amendment. But while the relative importance of private occupational pension schemes and the methods of funding vary considerably across the Community, the financial implications of Barber were nonetheless significant for many important member states, including Germany and the Netherlands – a point that the British government has been anxious to broadcast.

Credit for the more speedy answer that now looks possible is due to the Dutch presidency, which raised the issue informally in the Social Affairs Council just before the summit. The neatness of the solution is reflected in the length of the protocol, which consists of no more than a single sentence. If member states are all prepared to ratify, the amendment could become operational at the start of 1993.

Ambiguous ruling

The ambiguity in the original court judgment related to the extent of retrospection. The court found that pensions constituted pay for the purposes of Article 119 of the Rome Treaty which calls for equal pay for equal work; it was therefore illegal for pension schemes to discriminate between the sexes over retirement ages. In stating that this finding should not be retrospective, the Court failed to indicate whether benefits for people who retired after the judgment should be equal for all years of service or only for years of service after the date of the ruling.

The protocol now sets out to ensure that the European Court's judgment will not apply for periods of employment that pre-date Barber. While estimates of the likely cost of retrospection, which ranged up to £50bn, were almost certainly exaggerated, the decision still reduces the likelihood of a substantial increase in pension liabilities.

Continuing support

Ratification would kill the present uncertainty at a stroke. But a treaty amendment requires unanimity; and Labour's opposition to the least generous solution from the pension beneficiaries' point of view suggests that a change of government in Britain could throw the matter back into the hands of the European Court. The British Coloroll test case, which is due to go before the court next year, will anyway proceed with continuing financial support from the Department of Social Security, since it embraces wider issues relating to the liabilities of trustees and employers, and the actuarial treatment of the different life expectancy of men and women.

This Community intervention into British social policy is not the kind of thing a Conservative government might be expected to welcome after the Maastricht row over the social chapter. But it is being welcomed – not least because it takes the DSS off the hook in a sensitive area. The ever-vociferous pensions lobby is placated, while the blame for the extension of an existing inequality in pension rights into the future, which might grate with voters, can be attributed to Brussels.

But the department cannot rely on a European *deus ex machina* to address the equalisation of pension rights in the state scheme, which is not affected by Barber, even if a solution has been deferred until after the election by Social Security Secretary Mr Tony Newton's call for more debate. His discussion paper, which was expected in the autumn, is already late. It is high time he put this show on the road.

Patti Waldmeir on the forging of a new South African constitution

Country in the making

After 350 years of racially separate existence, white and black South Africans sit down later this week to try to create one new multiracial nation, with a constitution based on the principles of democracy, freedom and equality for all.

The grotesque social experiment of apartheid, which has left such deep divisions between races and tribes in South Africa, will be at an end, and the first steps taken to repair the damage done by centuries of inequality.

The process of writing a new constitution could well take years to complete. Indeed, the 240 delegates who will attend Friday's Convention for a Democratic South Africa (Codesa), which brings together political groups from across the rainbow of South African society, will take only preliminary steps towards that goal.

But after a year of sometimes harsh recriminations and bickering – a year which saw the worst political violence in South African history – the ruling National party and the African National Congress (ANC) have rediscovered the central fact of South African political life: that they need each other. Neither can govern alone, and no solution is possible without concessions.

The obstacles that so frustrated progress over the past year – delays in the release of political prisoners and return of exiles, and charges that Pretoria was complicit in violence which left nearly 3,000 dead since September 1990 – have been removed or overcome.

Under the influence of the ANC's shrewd new secretary-general, Mr Cyril Ramaphosa, elected in July, the organisation changed tack completely: no longer did it seek to punish Pretoria by refusing to negotiate; instead, it began to force the pace towards constitutional talks.

Already, some measure of agreement exists on the most basic issues: that the new constitution should, broadly, enshrine liberal democratic values. South Africa will be a multi-party democracy, where abuse of power is prevented by constitutional checks and balances; by the separation of legislative, executive and judicial authority; by devolution of power to lower levels of government; and by an entrenched bill of rights.

Indeed, this week's two-day meeting is expected to produce a "declaration of intent" which outlines broad constitutional principles. That, in itself, should not prove too difficult: none of the 20 participants – the ANC and National party, the government (which sends a separate delegation), the mainly Zulu Inkatha Freedom party, the South African Communist party, the liberal Democratic party, coloured and Indian groups and parties from the so-called black homelands – would dare withhold a commitment to democracy, freedom and equality.

But many more vexed issues remain, beginning with the role of the convention itself. After the two-day plenary, it will break into working groups to discuss governing South Africa in the transition to a new constitution; how to draw up that constitution; the future of black homelands; the role of the international community; and specific areas such as macroeconomic policy, education and health. The convention will meet in plenary session every month or two to ratify working group decisions.

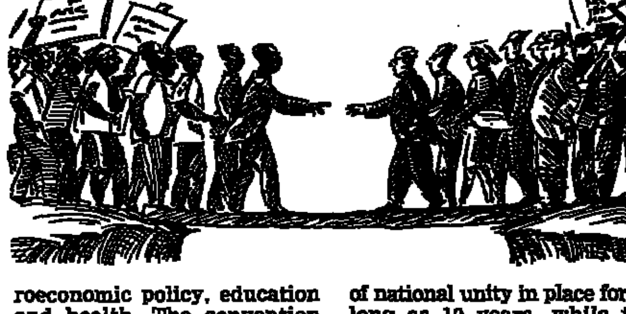
The African National Congress and the National Party:

COMMON GROUND

- *Multi-party democracy with regular elections*
- Separation of powers between legislature, executive and judiciary, with appropriate checks and balances
- Universal adult suffrage
- *Entrenched bill of rights to protect fundamental human rights, freedoms and civil liberties*
- Bicameral legislature, with the lower house elected by proportional representation
- Equal citizenship for all in an undivided South Africa

AREAS OF DISPUTE:

- Form and duration of an interim government
- Shape of a constitution-making body: elected or agreed by consensus
- *Constitutional protection for minorities*
- The economy: market-oriented or mixed
- Protection of economic and social rights in a bill of rights
- Proportional representation in the executive



Both the ANC and the Nationalists see it as the first stage of interim government. But while Pretoria says it will consult Codesa on all significant legislation and will push nothing through parliament without the body's consent (except in what the government deems to be extreme circumstances), the ANC wants government to be legally bound by Codesa's decisions.

Eventually, Codesa could become a kind of "interim parliament", with a "government of national unity" formed to run the executive. But for the moment, a large gulf remains between the two protagonists (not to mention the 18 other parties at the table). The ANC and the Nationalists say they want an urgent resolution: Pretoria is aiming to have a transitional government in place by the middle of next year, and the ANC is also urging speed. But Pretoria will not quickly relinquish the sovereignty of the current parliament (which excludes blacks); and the ANC is concerned that a share of power will mean an equivalent share of responsibility for administering apartheid.

The tenure of such a government is also in dispute: some Nationalists see a government of national unity in place for as long as 10 years, while the ANC insists 18 months is the maximum. The latter knows it does not have the expertise to pull its full weight in an interim government; it sees it as a holding operation, designed merely to control the security services, the public media, electoral mechanisms and some budgetary areas while elections are organised for a constituent assembly.

According to the ANC blueprint, that popularly elected assembly would draw up the new constitution. Codesa would lay down nothing beyond the broadest constitutional guidelines. Pretoria wants the opposite: it sees Codesa agreeing a detailed constitution by consensus, with an elected constituent assembly (or a referendum) used only to lend it legitimacy.

Once agreement has been reached on the mechanism for drawing up the constitution – already the subject of private discussion between the ANC and government – disputes over substance will emerge. While both sides concede the minority rights must be protected, their approach is fundamentally different. Pretoria wants to neutralise hostility by balancing racial and tribal groups, through a constitutionally enforced coalition government. That would mean ministers chosen by proportional representation (reflecting political parties' share of the vote); extra representation (and perhaps a veto) for minorities in the upper house of the legislature; and regional autonomy to allow groups like the mainly Zulu Inkatha party to dominate in their home region.

The ANC trusts the South African melting pot to weld a united nation. It would protect minorities solely through a bill of individual rights.

The issue of the economy is likely to prove even more contentious. The government wants Codesa to commit itself to a market-orientated economy with minimum state intervention and protection for private property; the ANC, under the strong influence of its Communist party ally, plans an interventionist programme to redistribute wealth.

As if all this were not difficult enough, the ANC and government must carry along 18 other parties to the talks – including the increasingly irascible Chief Mangosuthu Buthelezi of Inkatha, who is enraged by evidence of collusion between the ANC (his main rival) and his old ally, Pretoria. After this year's bloodshed, with Inkatha pitted against the ANC, the ANC has learned that it is dangerous to ignore Chief Buthelezi's wishes; but to accommodate them often proves nearly impossible.

Still, the forces of change in South Africa can be counted on to propel all parties towards a solution. Indeed, the two main protagonists are under pressure to act swiftly. The National party knows that whites have recently hit a nadir of fear and uncertainty, and that ultra-right paramilitary and political groups (which are boycotting the talks) are gaining support as a result: last month the Nationalists suffered a heavy by-election defeat which saw a 15 per cent swing to the white supremacist Conservative party. The government is eager to present the electorate with concrete proof – in the form of referendum proposals as early as the middle of next year – that power-sharing will not mean political suicide for whites.

The ANC, for its part, risks being accused of selling out to Pretoria: its pact with the far left Pan Africanist Congress (PAC) broke down when the PAC discovered that the ANC and the Nationalists were stitching up deals in private. The PAC says it will not attend the talks; and until the ANC achieves enough power to begin delivering on promises to its constituents, the townships will remain fertile ground for PAC recruitment.

Both the government and the ANC suffer from the prolonged recession, the worst possible economic background for political change. After nearly three years of real decline in average living standards – leaving per capita incomes (according to the magazine Finance Week) at the level of the 1960s – all are suffering. Next year promises only minimal growth.

Progress will no doubt prove halting and slow, with petty disputes and bitter rows along the way. But before the government's term expires in early 1995, critical mass will slowly build in South Africa's political centre. Therein lies the country's best hope for peace in the post-apartheid era.

Kaifu and his memories

Robert Thomson and Stefan Wagstyl interview the recently dropped Japanese prime minister

Mr Toshiki Kaifu grins broadly when recalling his fresh memories of having sat at the same table with President George Bush and Chancellor Helmut Kohl. Asked to describe how he first addressed Mr Bush, the former Japanese prime minister told of his uncertainty:

"I felt very humble at only having been an education minister, and thought I should address him as 'Mr President'. But Mr Bush called me Toshiki and told me to call him George."

Then there was Mr Kaifu's call to Mr Boris Yeltsin during the Soviet coup attempt, and the disagreements with François Mitterrand, the French president, over regulating the international arms trade. And there was a special warmth for Mrs Thatcher – "I called her Margaret".

Some of these cherished memories have been captured in photographic form on pre-paid telephone cards intended as gifts for his constituents: Mr Kaifu at the Group of Seven meeting in London, or with Mr Mikhail Gorbachev.

Mr Kaifu's days as a world leader ended suddenly two months ago, when he became a victim of the same Japanese political system that had catapulted him from relative obscurity to a seat at the top table. Appropriately, the demise was prompted by his attempts to reform the system that he still condemns as inappropriate for one of the world's most powerful countries.

Mr Kaifu made his political reputation through his intelligence and his eloquence in debate, talents which won him two terms as education minister. His ready smile and smart clothes, including an ever-present polka-dot tie, made him popular with voters. But he never developed a taste for the nitty-gritty of life in the ruling Liberal Democratic Party which centres around the collection and distribution of money.

When in 1989 the party was shaken by the Recruit bribery scandal, Mr Kaifu was appointed prime minister because he was one of the few senior politicians with a clean record. But this counted for nothing when two years later party bosses dumped Mr Kaifu despite the fact that his opinion poll ratings were among the highest on record.

If Mr Kaifu is bitter about the experience he does not show it. In his first interview since leaving office, he said: "When I started as prime minister, I was told to rescue the LDP, which was, at that time, at the very bottom of its popularity. I tried my best, and managed to win a general election, and attempted to maintain economic growth and advance the idea of creating a more just society. Of course, my Cabinet was criticised, but I simply did what I believed I should do."

He still wants political reform, including the overhaul of political fund-raising laws and the introduction of a new electoral system in which multi-member constituencies would be replaced by single-seat districts. Mr Kiichi Miyazawa, the new prime minister, has pledged to support new reform bills next year. But Mr Kaifu acknowledges the chances of success are slim.

"Some of our younger politicians support reform, but it may take some time. For the time being, they can at least uphold the principle of reform and attempt to broaden its appeal among other politicians and the public."

Mr Kaifu made a comparison between the scandal-prone Japanese political system of the present and the British system of the early 19th century. "We should never allow political funding to cause another scandal. You have a model in your (British) legislation on political funding. We should base our political funding on that legislation."

Political reform is not the only Kaifu era initiative to be scrapped since his departure. As prime minister, he had pushed for controversial legislation authorising the despatch of Japanese troops for United Nations peace-keeping operations. The issue had stirred fears among ordinary Japanese, who perceived that the move was one further step in the direction of the country's re-emergence as a military power.

Public opposition this month persuaded the LDP to postpone the bill's passage through the Diet – perhaps indefinitely. Mr Kaifu, who believes Japan has to play a bigger role in the United Nations and in world affairs, says the postponement is "very, very regrettable".

"What will we have to show Mr Bush when he comes next month?" asked Mr Kaifu, referring to the president's visit to Japan in early January. Mr Kaifu believes that Japan was not given due credit for its $13bn donation to the Gulf campaign. He said few foreigners recognise that the government raised the funds by introducing an oil tax affecting every Japanese.

Since leaving office, Mr Kaifu has joined the symposium circuit and says that he would like to use expertise gained during his time as prime minister in enhancing Japan's international profile. Although only 60, he is unlikely to be given another senior post in the government and he does not have the numbers to be a factional power within his own party. He does, at least, have the memories and the telephone cards.

OBSERVER

Surprise package

■ When it comes to giving unexpected Christmas presents, few Santa Clauses this year are likely to out-do recently appointed KGB chief Vadim Bakatin. He has just handed Robert Strauss, the US ambassador to Moscow, a plan of the soviet bugging devices laid in the new US embassy building there.

While Bakatin apparently tendered the gift as a gesture of friendship, his motives may be less than altruistic. It so happens that the devices in question have been bugging the US contingent in Moscow ever since they decided to erect the supposedly fortress-like building years ago.

For reasons that remain mysterious, they engaged a soviet construction team. Then – surprise, surprise – before the work was completed, they discovered they had reason to suspect that the building contained almost as many bugs as bricks.

Accordingly, the still unfinished pile next to the Russian parliament has been left mostly uninhabited. Which suggests that Bakatin's gift is meant to persuade the Americans to move in.

Whether it will do the trick, is another question. Although describing the gift as "amazing", Strauss is not entirely convinced of its goodwill. After all, he asked, how could the Americans know that the bugging plan was the real one.

Cold war suspicions, it seems, will take a good few Christmasses yet to expunge.

Trading up

■ The Privy Council permitting, the UK will soon have a Westminster University. But Observer doubts that members of the said neighbourhood's House of Lords will queue up to send their offspring there in place of Oxford.

It will be merely the nominally up-marketed Central London Polytechnic, which wants to adopt the Westminster title when Britain's polys are allowed to call themselves universities next year. Not to be outdone, Hatfield poly is dreaming of life as the University of Hertfordshire, and Thames poly fancies itself as the University of Greenwich.

The re-titling process is proving trickier for other polys in cities with a pukka university already bearing their name. Indeed Privy Council secretary George de Deney, who has the delicate task of negotiating titles, is said to be none too amused at the time it takes to soothe academic egos.

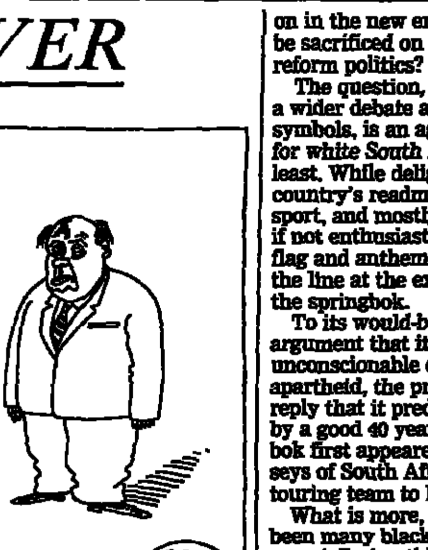
For example, Leeds Polytechnic has had to settle for The Metropolitan University, Leeds ("we'll soon be known as *The Met*", says director Chris Price). But its counterpart in Oxford perhaps hopes to outflank its august neighbour by becoming Churchill University.

The same strategy of taking the name of a prominent local family appeals to Liverpool poly, which is toying with Sir John Moores University in honour of the Littlewoods millionaire (whose son just happens to be its chancellor). But there is apparently no truth in the rumour that East London poly plans to follow suit by calling itself after the Krays.

Flower power

■ While the UK may be very much the odd one out in the post-Maastricht European Community, one of the things it stands out for is creativity. Or so it would seem from a British achievement in beating the Brussels commission in a design competition run by the commission itself.

The community's new Eco-label, approved late last week for the environmental labelling of consumer goods, is a British design from Newell and Sorrell, the consultancy best known for its British Rail InterCity "swallow".



"L'état c'est moi"

The design was selected, against four other symbols, by an independent agency on the basis of market research in all 12 Community countries. One of the other runners, initially favoured by the Commission, was the old symbol it had designed for the 1989 European Year of the Environment.

John Sorrell, the consultancy's chairman, denies there is any significance in the fact that his creation - a flower incorporating the letter "E" and the 12 Euro stars - shows a distinct tilt to the right. When it appears in animated form on TV screens, "it may lean in different directions at different times," he says.

Spoken like a true European politician.

Endangered

■ South Africa seems somewhat on the horns of a dilemma over its famous sporting emblem, the springbok. Will the nimble gazelle live on in the new era, or is it to be sacrificed on the altar of reform politics?

The question, underlain by a wider debate about national symbols, is an agonising one for white South Africans at least. While delighted at their country's readmission to world sport, and mostly acquiescent if not enthusiastic about a new flag and anthem, many draw the line at the extinction of the springbok.

To its would-be abolishers' argument that it is a now unconscionable emblem of apartheid, the preservationists reply that it predates apartheid by a good 40 years. The springbok first appeared on the jerseys of South Africa's rugby touring team to Britain in 1906.

What is more, there have been many black springboks especially in athletics, the preservationists say. And they draw further encouragement from the comment by the African National Congress's Steve Tshwete that sportsmen, not politicians, should be left to decide the question.

In the end, however, the answer may be compromise. For instance, one idea for adapting the emblem to embody the country's new society, is to mutate it into a zebra.

Last word

■ Few people could claim to have outwitted master of repartee Harold Macmillan, later Lord Stockton, to the extent of stumping him for an answer. But such was the achievement of the late Sir Roy Welensky when prime minister of Rhodesia and Nyasaland, a feat seemingly unnoticed in his obituaries.

When he met the then British premier in 1958, the patrician Macmillan remarked that their early experience had no doubt been different.

"Yes," said Welensky, who was proud of his early days as a railway fireman and engine-driver. "Your background was huntin' and shootin' – mine was shuntin' and bootin'.

FINANCIAL TIMES CONFERENCE
16 DECEMBER 1991

CABLE TELEVISION & SATELLITE BROADCASTING
London, 17 & 18 February
The Financial Times' annual conference will look at the international world of broadcasting and the new media, a growth industry for the 1990s. Speakers include Jean Dondelinger, EC Commissioner responsible for Audio-Visual Policy, Jean Grenier, Director General of Eutelsat and Terry Seddon, Chief Executive Officer of Asia Satellite Telecommunications. Independent broadcasting in the UK will be reviewed by David Glencross, Michael Grade, Leslie Hill and Roger Laughton.

TELEVISION OF TOMORROW
London, 19 February
A one-day conference to review High Definition Television strategies in Europe, the US and Japan; the pros and cons of analogue and digital systems. Speakers include Dr Joan Majó from the EEC, Dr Peter Groenenboom from Philips and Mr Andrew Lippman, MIT.

AIR TRANSPORT IN THE ASIA-PACIFIC REGION - TOWARDS THE 21ST CENTURY
Singapore, 23 & 24 February
Arranged in association with the International Air Transport Association, the conference is timed to immediately precede the Asian Aerospace '92 Exhibition. A panel of international speakers will consider the issues of concern to the region - multilateralism in international air transport, the problems of congestion in the air and on the ground, the emergence of trade blocs.
Speakers include: Dr Cheong Choong Kong of Singapore Airlines; Mr Vladimir Zubkov of the International Civil Aviation Organisation; Mr Mitsuo Ando of Japan Airlines, M. Bernard Attali of Air France and Mr Chatrachai Bunya-Ananta of Thai Airways.

INTERNATIONAL BANKING
London, 25 & 26 February
The 1992 meeting will review how the international banking industry is responding to the challenges of economic uncertainty and the continuing pressures on profitability and margins. Speakers include: Mr Brian Quinn, Executive Director, Bank of England; Mr Eiichi Matsumoto, Vice Chairman, The Bank of Tokyo, Ltd; Mr Abdulla A Saudi, Deputy Chairman, President & Chief Executive, Arab Banking Corporation (BSC); Mr Willem E Scherpenhuijsen Rom, Vice Chairman, Internationale Nederlanden Groep, & Chairman, NMB Postbank Groep and M. François Henrot, Chief Operating Officer, Compagnie Bancaire.

INVESTING IN A PRESENCE IN JAPAN
London, 4 March
This high-level, yet practical conference, to be arranged in association with Priority Japan, will feature keynote speeches by The Rt Hon Peter Lilley, MP, Secretary of State for Trade and Industry; Mr Michael Perry, CBE, Vice Chairman of Unilever and Sir David Scholey, CBE, Chairman of S G Warburg Group.

All enquiries should be addressed to: Financial Times Conference Organisation, 126 Jermyn Street, London SW1Y 4UJ. Tel: 071-925 2323 (24-hour answering service), Telex: 27347 FTCONF G, Fax: 071-925 2125

High anxiety in the dream factory

Sony arrived in Hollywood two years ago and spent billions. **Alan Friedman** asks whether its strategy is successful

Hollywood may be in recession, but you would never know it from the flood of blockbuster movies being released this Christmas by Sony Pictures Entertainment.

They include Hook, the $62m film version of an updated Peter Pan starring Dustin Hoffman and directed by Steven Spielberg; Warren Beatty in a $40m gangster tale called Bugsy; Prince of Tides, a $35m vehicle for Barbra Streisand; and My Girl, a maudlin comedy that cost just $15m to make, and which has grossed twice as much since it opened.

When marketing and related expenses are added on, this unprecedented Christmas hullabaloo will have cost Sony more than $225m, or about half as much as the average $450m to $500m spent by each Hollywood studio on a roster of about 20 films a year. The budget for Sony's own film production in the year to next March is said to be nearly $700m.

Even by Hollywood standards this is a lot of money, which explains in part why Sony executives are in a state of high anxiety. Another reason is that the Christmas blitz is effectively *Sony's coming out party, the* first big test of projects set in motion following the costly 1989 acquisition of the renamed Columbia Pictures.

In the two years since it marched into Hollywood – under the banner of corporate synergy between hardware (consumer electronics) and software (entertainment products) – Sony has become extremely sensitive to criticism. Rival film studio chiefs have attacked the company for allegedly driving up the already inflated costs of the industry with a lavish spending programme. And Wall Street observers have cast doubts on everything from Sony's likely return on investment and its debt burden to the strategic merits of hardware-software synergy.

Nor is the company doing well as a group – Sony Corporation's worldwide pre-tax profits fell by 33 per cent in the quarter to the end of September. Even worse, a $923m Japanese share offer last month for Sony Music Entertainment, the other pillar of the group's US entertainment empire, met with a disastrous market response.

For the electronics giant, the stakes in Hollywood are high. Sony has spent a total of $6.5bn buying and investing in SPE. The acquisition of Columbia cost Sony $3.4bn and came with $1.5bn of debt. An estimated $400m of assets – including property interests – were transferred by Sony to Warner Brothers to settle a lawsuit that delayed the hiring of Mr Peter Guber and Mr Jon Peters, the film producers whose company was bought by Sony for $200m and who were named as co-chairmen of SPE. Sony executives dispute the $400m figure, but do not deny that a further $1bn on top of the original $3.4bn has been pumped into SPE over the past 23 months.

Add to the above $6.5bn the $2bn spent by Sony in 1988 to buy CBS Records, and the Japanese company's total investment in the US entertainment sector totals more than $8bn, making it the largest by any Japanese company in the US. *This is even more* than the $6bn spent last year when MCA-Universal Pictures was bought by Matsushita, the Japanese electronics group that is Sony's arch rival.

Sony's Hollywood venture is clearly an important test case, of both Japanese investment and of the much-vaunted synergies between consumer electronics and the movie business.

The assessment of half a dozen top executives at the busy Sony Pictures lot in Culver City, California (whose *renovation has already cost* more than $100m) and at the Manhattan headquarters of Sony USA, SPE's parent, is that it is too early to judge the two-year investment programme. one were However, were the clocks to be stopped today, Sony's return on investment in the US would have to be called unimpressive, the supposed synergies non-existent and the management only just finalised.

It is the latter which has taken its toll in terms of public embarrassment for the company. The prime example was the removal last spring of Mr Peters, the hairdresser-turned-film producer whose flamboyant ways were perceived by Sony chiefs in Tokyo as damaging to the company's image.

But Mr Michael "Mickey" Schulhof, the vice-chairman of Sony USA, who is responsible for Sony's $8bn of US *entertainment assets, rejects all criti*cism and defends Mr Guber for having now assembled a capable team that is well equipped to run SPE.

The contrast is stark between Mr Schulhof, a physics graduate and 18-year Sony veteran who was the first American to be named to the board of a big Japanese company, and Mr Guber, the fast-talking 49-year-old in blue jeans who is paid $2.75m a year and operates from the remodelled art deco Thalberg Building on the Sony Pictures lot.

Mr Guber reacts angrily to critics who accuse him of over-spending and of assembling a top-heavy management. "Listen, this place was a mess when I arrived," he says. "I have put Humpty Dumpty together again. This is a creative process. It's not like making widgets. We brought talent into the studio. We got Spielberg! That's like being blessed by the Pope. You know what signal that sends? That we are back."

One industry analyst, Mr David Londoner of Wertheim Schroder, an investment bank, agrees with Mr Guber that Columbia's film division was in disarray when Sony arrived. *But he notes that Sony inherited a* profitable television division. It has one of the largest libraries of comedies for syndication, the most successful soap opera in the US and syndicated game shows that industry *observers say generate $100m* of annual income on their own.

While SPE does not disclose its profits breakdown, industry insiders say television will probably account for two-thirds of SPE's $300m pre-tax profits in the year to March 1992. This figure, which also includes about $25m from the theatre chain and $75m from motion pictures, could be trimmed back to $200m once overheads and asset depreciation are deducted.

Mr Schulhof discloses that the purchase of CBS Records and Columbia Pictures accounts for $7bn of the company's worldwide debt of $13bn. In the year to March 1991, the cost of servicing that debt was $728m. He argues that the figure is lower than it might have been because some $2bn of the $13bn is in Japanese bonds, which have an average interest rate of 1 per cent – *so that portion of the borrowing* has been relatively cheap. Even so, one effect of Sony's US acquisitions has been a considerable strain on parent company resources because of the cost of other interest charges.

Despite his bullish attitude, Mr Schulhof admits that if the equity markets had been stronger Sony would have launched a rights offering to retire some of the debt. He acknowledges that "ultimately the financial performance of our company will turn on how much debt we have".

Mr Schulhof predicts that Hollywood should contribute $200m to $250m out of a total of at least $700m of combined Sony film and music profits before taxes, interest charges and depreciation in the year to the end of next March. But set against the $6.5bn, that would imply a return on investment of only 4 per cent. And even if SPE succeeds in future in matching the highest annual operating income of a Hollywood studio – Warner's $360m last year – this would still mean a return of only 6 per cent.

Even if SPE's financial performance is outstanding for years to come, Sony *will still need earnings from its much*-touted synergies if its return on investment from Hollywood film studios is to exceed that which would have accrued from investment in other instruments such as US Treasury bonds.

Do the much vaunted synergies really exist? Few analysts or industry insiders believe they do.

Mr Schulhof and others in the group speak loftily of the future of Sony's high-definition television, or laser discs that will supplant VCR, or the enhanced movie sound that will come from Sony digital systems. But Mr Schulhof claims it is too soon to look for "concrete" income-generating examples of synergies between Sony hardware and its Hollywood studio "because after only two years the examples are mainly conceptual".

To explain synergy, Mr Schulhof advances the argument that Sony's ill-fated Betamax video recorder, introduced in 1975, lost out to the VHS players because more Hollywood studios started releasing films in VHS format. Yet industry observers doubt *that even Sony's commanding 1991* market share of 18 to 19 per cent of US box office receipts provides enough control of the software to drive hardware sales.

The Sony vice-chairman answers this by saying the reverse is now true. "Synergy is the ability to participate in markets that you helped to create," he says, citing as examples the way the development of the compact disc player (hardware) helps Sony's sale of music recorded on CDs (software) and the way VCR hardware sales help SPE's 18 per cent share of the $5bn-a-year home video rental and sales market.

But synergy does not always work in practice. Critics point to the example of digital audio tape (DAT) players, a Sony hardware product that has suffered from a lack of support by the music industry. Sony's own record company has declined to break ranks with the industry and has released only a small number of classical recordings on digital tape, thus failing to assist its sister hardware division.

Mr Schulhof says he would prefer the ultimate value of the Columbia Pictures acquisition to be judged "in *the fifth year, not the second" and he* insists this is the long view from Tokyo as well.

Synergy, therefore, is a concept whose time has not yet come. And that means that until it does, Sony's Hollywood investment can only be judged in terms of SPE's profitability and the debt-servicing cost to Sony at the group level.

In the long term Sony may have the last laugh. For the time being, however, its Hollywood profits will be eaten by debt-servicing costs at the parent level, just as Warner's movie earnings are consumed by Time Warner or those of Twentieth Century Fox by Mr Rupert Murdoch.

Mr Guber and his team in Hollywood may have a sure creative touch – and may even attain the best profits in the film industry. But unless Sony is able to reduce its debt burden, *that will not be good enough.*

Samuel Brittan

Playing fields will not do

There has been one disputed issue of elementary economic theory which goes back to the start of the European *Community in 1958, which has* always been dodged, but cannot be dodged much longer.

The issue is whether countries with different levels of pay or other elements of hourly remuneration can trade *with each other in a mutually* beneficial way, or whether some politically negotiated process of harmonisation is required.

The latter view lay behind the safeguard clauses which were inserted into the original Rome Treaty in 1957 at the behest of French leaders who feared that their own industry could not stand up to German industrial might. Soon after the Treaty came into operation in 1958, General de Gaulle was in power, and the safeguard issues were never invoked. The issue then remained dormant until the recent row over the Social Charter.

The standard market economist's view has always been that differences in pay costs are mainly determined by differences in productivity levels. Industries in India or the poorer parts of Latin America are able to compete in world trade because their low productivity is offset by lower pay. Hours and conditions of work *are one aspect of the total* pay offer. Involuntary reductions in working hours, or restrictions on the work that can be done in periods of peak demand, have an impact on employers similar to that of pay increases, of which they are a *disguised* form.

There is a further wrinkle to the productivity doctrine, which is insufficiently appreciated. This is that the productivity which is relevant to pay is that prevailing in a particular country or region rather than in the specific firm or plant. A Portuguese textile worker will not normally have the same pay or conditions as his counterpart in Germany or Sweden, even if his own productivity is just as high. The fact that his wages correspond to the general Portuguese level will give his firm a comparative advantage in international trade; and it is only as similar productivity performance spreads to the rest of the Portuguese economy that the general wage level will rise; and the composition of Portuguese exports would *then change.*

Because this simple piece of international trade theory is not known, not understood or not accepted among EC governments that the demand arises to impose similar hourly costs on employers *in different* countries. The Maastricht opt-out for Britain from further EC "social" legislation will not be the end of the matter. Already leaders of the 11 can be heard complaining that British firms will have an unfair advantage as the "playing field will not be level."

All of which goes to show how treacherous sporting metaphors can be in political economy. The British side has made much of level playing *fields in attacking subsidies to* state industries or restricted entry into markets such as insurance. But the playing fields metaphor has been absolutely the wrong one. The problem about such special aids or restrictions is not that everyone should have the same starting costs. If that were so there would be little chance of anyone entering new markets.

The point is that subsidies and restrictions make comparative prices a bad guide to the best location of production or source of service. Indeed, the worst sufferers from a French subsidy to a French industry may be the French taxpayers, who are actually being helped when British competitors call "foul play".

I cannot guarantee to find a better metaphor to describe these distortions to trade. One might try: shifting the hands on the clock so that it tells the wrong time. The point to get across is that the market is a signalling system for consumers and workers, and not a spoils system for producers. However late in the day, the playing fields metaphor should be ditched – if only because the British have scored an own goal by its inappropriate and excessive use.

LETTERS

An index that avoids upset

From Mr Charles Wyatt.

Sir, There is absolutely no need for fund managers to feel upset every time adjustments are made to the constituents of the FT-SE 100 Index (Letters, December 13). All they have to do is use the FT Actuaries All Share Index, or one of its equity groups or sub-sections, as a measure of performance.

The All Share Index covers 660 shares, spread through every sector of the market bar mining. It is calculated on a weighted arithmetic basis so that it reflects the performance of a portfolio of these shares with maximum accuracy.

The Footsie was never designed for this purpose, *though it is calculated* in the same way. Basically it is an up-dater on the old FT Ordinary Index and has the advantage of being calculated hourly rather than daily like the All Share Index.

Its object was to provide an index in which contracts could be traded on the options and futures markets. It is a sound barometer of market mood through the 100 major companies which are its constituents, but it is not an accurate measure of performance.

Charles Wyatt,
Volume Analysis,
1a Bow Lane,
London EC4

An astonishing proposal

From Mr Ian A Mills.

Sir, Does anybody else share my astonishment at the Vickers' proposal to consider selling Rolls-Royce; one of the most famous brand names in the world? Your article, "Vickers outlines 'options' for R-R" (December 10), said it all: "After many years as a consistent source of profits…expected to run up losses of £60m this year – derived equally from trading and exceptional restructuring charges."

So, for a one-year trading loss of £30m, Rolls-Royce may well end up owned or partly owned by a foreign company. The one aspect not mentioned at all in its review is marketing and sales, where I believe part of its problems may well lie.

Ian A Mills,
14-16 Place Cornavin,
1201 Geneva,
Switzerland

BTR has no place for 'non-executive' directors

From Sir Owen Green.

Sir, The less well-informed piece headed "Company Man" (Observer, December 11) provides a reason, not only for factual correction, but also to plead for a containment of the misleading use of titles. The correction is to state that in BTR the title "non-executive" director is reserved for no one.

The misleading nature of the title relates to its use other than as a colloquial expression like "he is bespectacled". It is insufficiently recognised that it has no legal meaning whatsoever and carries no distinction in authority, responsibility or *function from that of the* legally defined, simply-pronounced, succinct expression "director" *per se.*

Even those who are struggling with the widely discussed, but statistically infrequent, problems of corporate governance seem now to have switched to yet another misleading label – "independent director".

May I suggest that until the perceived aims for improved corporate governance are clarified, the means for their achievement determined, and that solution set in a legal framework, we should all continue to use the plain, non-discriminatory, well understood, even dignified, title of "director".

Owen Green,
chairman,
BTR,
Silvertown House,
Vincent Square,
London SW1P 2PL

Kenneth Baker costs likely to be benefit if met by Home Office

From E J Henbrey.

Sir, Mr Andrew Shaw (Letters, December 3), perhaps with his tongue in his cheek, suggested that the Inland Revenue might tax as a benefit in kind to Mr Kenneth Baker the costs awarded against him by the Court of Appeal when it recently found him guilty of contempt of court. This is if, as the Home Office has undertaken, the costs will be met out of public funds.

The situation is particularly relevant to a dispute currently running with the Inland Revenue about the tax consequences of a company taking out "directors and officers' liability" insurance. This insurance first indemnifies directors and officers personally for any costs incurred by them as a result of actions taken against them in respect of alleged breach or shortcoming in the performance of their duties as directors or officers. Second, it indemnifies the company itself in circumstances where it in turn has indemnified a director or officer for such costs.

Directors and officers' liability insurance is becoming increasingly necessary because of the ever-widening responsibilities imposed on directors by the constant flow of legislation enacted in recent years, and also because of the growing number of claims against directors, many of which may have little or no merit but require to be defended.

The Inland Revenue view appears to be that the proportion of the insurance premium attributable to indemnification of the individual personally is a taxable benefit in kind. To the extent that the policy indemnifies the company there is no benefit in kind, but should the company itself indemnify the director or officer for his personal costs, then the amount of that indemnification is a benefit in kind; hence the relevance of Mr Baker's situation.

If the Inland Revenue adheres consistently to its presently understood view, Mr. Baker will indeed find himself saddled with a personal income tax liability should the Home Office bear his personal costs. The Taxpayers' Charter promises that all taxpayers shall be dealt with alike. So it will be of no small interest to those currently in dispute with the Inland Revenue to know the Home Office indemnification will indeed be taxed; or, if not, why standards applied to government ministers should be different from those being applied to directors and employees generally.

E J Henbrey,
40 Corringway,
Ealing, London W5

Strong criticism of Leyland Bus plant closure

From Mr Robert Spano.

Sir, I read with sadness the story "Volvo factory closure signals end for Leyland Bus" (December 7). It felt that Volvo was being somewhat two-faced in its justification of the closure of the Workington plant.

When Volvo bought Leyland Bus from its management in March 1988, just a year after the original management buy-out, it promised to expand its product range and strengthen its resources. Indeed Mr Ernst Knappe, a senior vice-president of Volvo said there would be a "substantial investment" in Leyland Bus and that the 1,850 jobs, as then existed, would be secure. He also said that Volvo was keen to secure a bus manufacturing presence in the EC in preparation for the removal of trade barriers post-1992. The Farrington factory was closed *just nine months after the* takeover. Mr Robert Atkins, roads and transport minister, said at the time that Volvo had promised a great future for the plant and added "we have been misled and deceived" and was "angry that a company with Volvo's reputation should behave in such a false and shabby manner".

In August, just three years after the takeover, Volvo announced the gradual phasing out of the Leyland name while still insisting Workington had a secure future. Now, three months later, its closure is announced. Suddenly 1992 and the EC-based production site are of no importance, although Volvo minibuses will be made in Austria.

It seems obvious that Volvo only bought Leyland Bus in order to eliminate it as a competitor. Volvo is more interested in its co-operation agreement with Renault which will allow sharing of development costs and the increased ability to tap nationalistic markets like France with "home-made" products while we ride around in imported Volvos and Renaults. That is the scandal.

Robert Spano,
58 Park View Gardens,
London NW4

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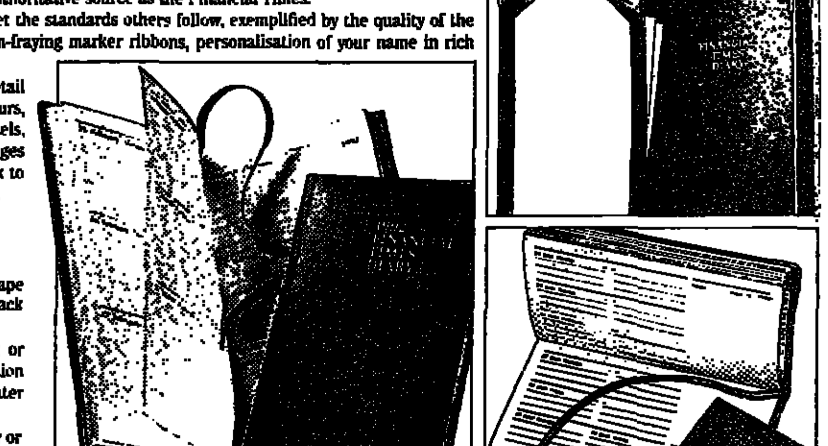

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FINANCIAL TIMES
Monday December 16 1991

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IMF says move underscores need to press ahead quickly with reforms

Soviet state bank declared bankrupt

By John Lloyd in Moscow

THE Soviet Bank of Foreign Economic Relations (Vnesheconombank) has been declared officially bankrupt by Mr Egor Gaidar, Russia's deputy prime minister and economics minister, saying it has only about Rbs60m (£20m) in its accounts.

The move throws into doubt whether Vnesheconombank, which finances foreign trade, will continue to repay loans outstanding to the Soviet Union.

Under an agreement with the Group of Seven largest industrial countries last month, it suspended payment of principal on the estimated $80bn debt owed to foreign governments.

Earlier this month, Vnesheconombank unilaterally announced it was suspending principal payments on commercial bank debt, though it promised to keep up interest payments.

Mr Gaidar said hard currency was now being used only to buy food, raw materials, spare parts and essential equipment and to make freight payments.

Mr Richard Erb, deputy managing director of the International Monetary Fund, who is visiting Moscow and Kiev, said on Saturday the problems of Vnesheconombank underscored "the importance of moving ahead quickly with reforms".

Mr John Odling-Smee, head of the IMF's Eurasian department, said: "The USSR has reduced its reserves to a very low level, and it is always difficult to operate at that level. It may become necessary to prioritise payments on imports."

In a further indication of the Soviet cash crisis, Mr Gaidar told leaders of Russian autonomous republics and districts on Saturday that Russia – which now effectively controls the Soviet military budget – would make no orders in the coming year for a range of weaponry, including tanks, armoured vehicles, ammunition and fighter aircraft.

State expenditures – accounting for 65 per cent of total gross national product – would also be reduced by cutting food subsidies, which make up 14 per cent of gross national product. Most prices in Russia, Ukraine and Belorussia are due to be freed on January 2.

However, Mr Ivan Silayev, chairman of the Inter-republican Economic Committee, effectively what remains of the Soviet government, said at the weekend that the Central Asian states had demanded that this be further postponed to allow them time to free their prices at the same time.

● The Soviet Union faces a cash crunch over the next year or two because of a bunching of debt repayments, according to the World Bank. However, the bank says in its annual review of world debt that the country is only modestly weighed down by foreign borrowing.

Meanwhile, sales of Soviet train tickets abroad have been suspended and the computers used to order tickets disconnected because the Soviet state railways cannot pay $150m of debt to foreign railway companies.

Debt action urged, Page 3

Thoroughbred to face novice challenge

By Neil Buckley

A BRITISH tradition could be under threat as the 240-year-old Jockey Club, the exclusive group that runs horseracing in the UK, meets today to discuss a plan to hand over many of its powers to a new body.

The plan, already accepted by the seven stewards of the august but often-criticised club, would create a new governing body which would break the Jockey Club's hold on the sport and allow in representatives of horse owners, the racecourses and other interests.

Lord Hartington, the senior steward of the Jockey Club, is expected to announce the structure of the new body in a speech at the club's Gimcrack dinner in York on Tuesday.

Depending on the outcome of today's meeting, the Jockey Club could vote on the plan in January, when a 75 per cent vote in favour would be required.

The club would be likely to keep control of the rules and discipline, but hand over responsibility for financial matters and the fixtures list to the new body, to be known as the British Horseracing Authority or Board.

The background to the move is growing dissatisfaction with the performance of the club, and a racing industry that is struggling to match foreign competition.

Although attendances at racecourses rose by almost 20 per cent between 1977 and 1989, and prize money more than tripled, many owners have been enticed abroad by higher prizes, while racegoers complain about high admission charges and poor facilities.

Critics say the Jockey Club is an overly-exclusive, outdated body of aristocrats, landowners and retired soldiers, unsuited to running a modern leisure industry. A House of Commons committee earlier this year criticised the club for its lack of commercial and democratic accountability, and said it was organisationally unfit to run the Tote, the pool betting organisation. One bookmaker dismissed it privately yesterday as a "blast from the past".

The fact that the club's stewards include five former soldiers and one marquess – Lord Hartington, heir to the fortune of the Duke of Devonshire – and that its 133 members include 38 members of the aristocracy and 12 retired or serving military men, might seem to bear out that view. But one of the stewards, Mr Christopher Spence, is chairman of a merchant bank, and the club boasts an increasing number of businessmen and captains of industry within its ranks.

Its biggest problem, the Jockey Club says - and the House of Commons home affairs committee this year agreed - is that the sport does not receive sufficient funding from the £4bn-a-year bookmaking industry. The bookmakers blame the 8 per cent duty they pay to the government, higher than in almost any other racing country.

The new body is likely to run into the same difficulty as the Jockey Club – while betting duty remains at its current level, bookmakers say they would be forced to pass the cost of any increased contribution to the sport on to the punters, which might reduce turnover.

The supporters of a new body argue that a well-run and more commercially-minded horseracing industry would not need to rely so heavily on income from betting. Moreover, a governing body that was seen to be efficient by government might be rewarded by tax and financial concessions, permission for Sunday racing, or control of the Tote.

The Racehorse Owners Association has welcomed the plan, and Mr Peter George, chairman of Ladbroke Racing, the UK's largest bookmaker, also said he hoped the plan would be ratified. "But," he added, "it remains to be seen whether it will result in a fundamental change in attitude towards the bookmaking industry and the punters, who have for too long been seen by the Jockey Club as a panacea for racing's ills."

The Jockey Club's tradition of exclusive control of Britain's racing industry may be entering the final furlong

Search for safe places to do business

JOHN PLENDER

While politicians argue over the implications of Maastricht for foreign investment in Britain, a question of more immediate interest to inward investors is being overlooked. To wit, are there any British businessman, bankers, accountants or regulators left with whom it is safe to do business?

Over the past 18 months we have seen that some of the best-known names in business and banking have been the subject of financial scandals. We have learned from many of the details that became public that a set of British accounts is pretty well meaningless. The biggest commercial banks in the City have demonstrated an astonishing capacity for collective memory loss, first in property, then in the company of the late Robert Maxwell.

As for British auditors, they induce much the same reaction in us that Matilda invoked from her aunt in the poem by Hilaire Belloc:

Matilda told such dreadful lies
It made one gasp and stretch one's eyes;
Her aunt, who from her earliest youth
Had kept a strict regard for truth,
Attempted to believe Matilda:
The effort very nearly killed her.

The rest of our watchdogs, in the age of Polly Peck and BCCI, Roger Levitt and Barlow Clowes, Maxwell (public) and Maxwell (private), seem to spend half their time asleep on the job.

It would be foolish, of course, to assume that Britain has a monopoly of dubious entrepreneurs; and at the end of a decade of economic boom, stock market froth and financial deregulation, it would have been very surprising if the next decade had not been obliged to clear up a jumbo-sized mess in all the leading industrialised countries. But not all countries are actively seeking inward investment. And in Britain the sense of declining standards is altogether palpable.

Rationalising the commercial banks' memory losses is by now an engaging, if esoteric, parlour game. Take Maxwell. To start with he was heavily involved in the collapse of publishers Simkin Marshall long before the trouble started at Pergamon. The Department of Trade inspectors' final 1973 report on Pergamon Press, meantime, demonstrated beyond all doubt that he was adept at almost every known trick of share price manipulation, brow-beating, accounting sleight of hand and incestuous dealing between public and private interests – I've looked back and checked.

Maxwell thus disproves the old business adage that you can only lose a reputation once. But how and why? It is generally suggested that the bankers' failure to count their fingers after shaking hands with Mr Maxwell reflected gratitude for the way in which he saved them money by turning round the old British Printing Corporation. But there are deeper explanations. One is the structural and cultural upheaval in banking, whereby bankers are simply shell-shocked by the change from a social welfare and utility-type ethos to one of aggressive competition. Another is that virulent infection, the deal mentality.

In merchant banking an unhappy old guard privately bemoans the waning of an earlier City ethos in which the client's interest came first

In merchant banking an unhappy old guard privately bemoans the waning of an earlier City ethos in which the client's interest came first. Nobody in the pre-Big Bang world may have been perfect; but there were more people around who were capable of advising a client against doing a bad deal where it would have generated fat fees for the bank.

But how should one explain the decline of the professional ethic among accountants and auditors? It is too early to pronounce on this score in relation to Maxwell, however revived memories of the DTI inspectors' strictures of nearly two decades ago on Pergamon's auditors, Chalmers Impey, will prompt tough questions to be asked in relation to much grander names.

Perhaps the worst revelation for the accountants came in the leak of Price Waterhouse's submission to the Prudential, when the giant insurance company put its audit out to tender. This stated that Price Waterhouse did not want to lose the Pru's audit on grounds of fee alone, leaving outsiders with the impression that one of Britain's biggest audit and consultancy conglomerates was in the business of offering the audit as a loss-leader.

Once again we should be careful to recognise that all things are relative. The track record of British clearing banks in throwing away money through bad judgment or poor documentation is no worse than that of any other country's banks. And in merchant banking it came as a shock to see well-regarded Americans like Goldman Sachs associating as they did with Robert Maxwell; or again that Bankers Trust appeared to have such a shaky grasp of company valuation.

Accounting standards in continental Europe are, if a euphemism can be excused, of mixed quality. Even at top end of the spectrum, German accounts are directed primarily at satisfying the interests not of shareholders but creditors such as the banks – hence the padded reserves. The nearer to the Mediterranean one gets, the more scandalous the accounting and the more arbitrary the regulatory regime.

In short, Britain may look better from outside than it feels from within. And there are at least some signs of improvement, most notably in the output of the Accounting Standards Board under Mr David Tweedie. Mr Tweedie has recently been accused of failing to listen to industry. Praise be; and investors should give a rapturous welcome to his attempts last week to kill the abuse of extraordinary items and to teach industrialists and their auditors that liabilities are not the same thing as equity.

But Mr Tweedie cannot do it all himself. The real remedy for flabby auditing lies in prohibiting auditors from doing consultancy work for their own clients and putting their relationship with the company on to an arms' length basis. They are, after all, human – and greedy – like the rest of us.

No early UK recovery seen by employers

By Rachel Johnson in London

EVIDENCE that the UK recession will continue well into 1992 after a "tough start" to the new year was presented by the Confederation of British Industry, the UK employers' organisation, yesterday.

Manufacturers see no economic recovery over the next four months and expect output to fall and order books to weaken as demand slows in their biggest overseas markets.

The results of the CBI's December monthly trends survey are reminiscent of a "double dip" pattern of economic activity. Autumn evidence of a faint upturn in output and export orders has vanished, dashing hopes of a recovery early next year.

The bleak report from the CBI – whose surveys the Treasury regards as more accurate and comprehensive guides to the economy than most official statistics – appears to rule out any chance of the government achieving its forecast second-half recovery.

Figures to be published today are expected to show small monthly increases in industrial production and retail sales volumes for December as a result of higher energy output and discounting by stores rather than a broadly-based rise in the level of economic activity.

"These results point to a tough start to the new year. They show a downturn in overseas demand, which appears to reflect the uncertain situation in the US and continental Europe," said Mr David Wigglesworth of the CBI.

The Labour party used the news to turn the political debate away from Europe and back to the domestic issues – the recession, home repossessions and redundancies – upon which it wishes to fight the general election. Mr Gordon Brown, Labour's industry spokesman, stepped up his attack on the government's economic performance by warning Mr John Major, the prime minister, about unemployment's "relentless" rise to a possible 2.9m.

The CBI's survey shows that export order books deteriorated in December after having shown some improvement in November. The balance of minus 33 per cent of companies reporting below normal order books compared with minus 23 per cent in November. The figure represents the percentage responding "up" less the percentage responding "down".

Though the Treasury said it was taking the results of the survey seriously, it stood by its Autumn Statement forecast that output would rise by ¾ per cent between the first and second halves of this year.

The output trend, however, was even more clearly negative. After three months running in which the survey found that a majority of manufacturers expected output to remain stable over the next four months, a balance of minus 5 per cent expected volumes to decline again last month.

The CBI concern was shared by an independent forecasting team headed by the monetarist economist, Professor Patrick Minford.

Britain's economy would remain in recession in the coming months, with only a weak recovery in the second half of 1992, according to forecasts from Liverpool Macroeconomic Research. Prof Minford argued that the UK recovery would be hampered by a worsening international outlook, with the US facing a protracted recession and Japan and Europe entering slowdowns.

US wants nuclear safeguards

Continued from Page One

tures and "possible candidates for the post of commander-in-chief of the commonwealth," according to Mr Pavel Voshchanov, his press aide.

Mr Gorbachev's non-attendance at these talks emphasises the extent to which he has been pushed aside, as does the evidence from the last week that the top military favours Mr Yeltsin. He is now their paymaster.

At the same time, Mr Leonid Kravchuk, the Ukrainian president, continues to plan for a separate Ukrainian army – having already declared himself commander-in-chief of all Soviet military detachments in Ukraine. Though he has said that the strategic forces based there will remain under unified command, he has by implication taken over the tactical missiles – while he has called for joint control over the strategic weapons by the presidents of those republics in which they are based.

Marshal Shaposhnikov said on Friday he remained in control of all forces, including those in Ukraine. But Gen Konstantin Morozov, the Ukrainian defence minister, has told the Ukrainian-based commanders to take orders from him, and to regard Mr Kravchuk as commander-in-chief.

In a Time magazine interview published yesterday, Mr Gorbachev criticised Mr Baker for being "over hasty" in declaring that the Soviet Union had ceased to exist.

UK business hit by more IRA fire-bombings

By Philip Rawstorne

BRITAIN'S police yesterday renewed their appeal for vigilance by retailers and shoppers, especially in central London, as the Irish Republican Army threatened further fire-bomb attacks on shops and other businesses.

The IRA said yesterday: "The economic cost of disruption to daily life in Britain will continue to rise as long as the British government and its army continues to occupy part of Ireland's national territory."

The terrorist organisation claimed that "active service units" had carried out weekend fire-bomb attacks on London's National Gallery and the Brent Cross shopping centre in the north west of the city.

One retailer estimated shops at Brent Cross had lost £5m ($9m) in revenue because of the disruption. It was the third weekend in succession that UK retailers, already suffering from tough trading conditions, had been hit by the IRA campaign.

An incendiary device exploded in the Sainsbury wing of the National Gallery at about 3.30am yesterday. The fire was quickly put out and there was little damage. Police searched the building but no other devices were found and the gallery opened as usual.

The incident followed the explosion of three fire-bombs in the Brent Cross centre on Saturday morning. The first device ignited in the menswear department of the C & A store at 3.14am, setting off the automatic sprinklers and fire alarms. As police and firemen searched the centre, a second device went off at a Fenwick department store. The third was in a John Lewis store.

The centre – which was expecting 100,000 Christmas shoppers – closed until 1.30pm as staff and police combed the site for other devices.

Afternoon trade was light, and one retailer said: "This is a disaster. I have virtually had to write the day off."

Another incendiary device was found in a W H Smith books and stationery store just after 7pm as customers were leaving the shop. The device was disarmed.

WORLDWIDE WEATHER

		°C	°F
Ajaccio	S	12	54
Algiers	C	17	63
Amsterdam	S	1	34
Athens	S	14	57
Bahrain	F	23	73
Bangkok	F	31	88
Barcelona	F	9	48
Beirut	S	16	61
Belfast	S	7	45
Belgrade	S	3	37
Berlin	S	4	39
Biarritz	S	13	55
Bombay	S	30	86
Bordeaux	F	7	45
Boulogne	C	7	54
Brussels	S	4	39
Budapest	Fg	-5	23
Buenos Aires	C	24	75
Cairo	C	17	63
Cape Town	Dr	19	66
Caracas	F	26	79
Casablanca	C	18	65
Chicago	F	-7	19
Cologne	S	2	36
Copenhagen	C	6	43
Corfu	S	13	55
Dallas	S	-1	30
Dublin	S	9	48
Dubrovnik		–	–
Edinburgh	C	7	45
Faro	S	18	64
Florence	S	3	37
Frankfurt	C	-7	19
Geneva	C	-2	28
Gibraltar	R	14	57
Glasgow	R	6	43
Helsinki	S	-5	23
Hong Kong	S	21	70
Innsbruck	S	1	34
Inverness	F	7	45
Islamabad	C	18	64
Istanbul	S	8	46
Jakarta	R	31	88
Jersey	F	6	43
Johannesburg	F	26	79
Lima		–	–
Lisbon	C	12	54
London	S	3	37
Los Angeles	S	14	57
Luxembourg	S	-3	27
Madeira	S	21	70
Madrid	Fg	6	43
Majorca	F	14	57
Malaga	C	14	57
Malta	S	16	61
Manchester	C	5	41
Manila	C	30	86
Melbourne	C	19	66
Mexico City	C	21	70
Miami	S	21	70
Milan	S	7	45
Montreal	Sn	-4	25
Moscow	C	-1	30
Munich	S	-4	25
Nairobi	S	25	77
Naples	S	11	52
Nassau	F	28	82
New Delhi	S	25	77
New York	S	2	36
Nice	S	11	52
Nicosia	S	16	61
Oporto	C	13	55
Oslo	S	2	36
Paris	S	3	37
Peking	Fg	0	32
Prague	S	1	34
Reykjavik	F	-4	25
Rhodes	S	14	57
Rio de Janeiro	F	35	95
Rome	S	10	50
Salzburg	S	-7	19
San Francisco	S	6	43
Seoul	C	11	52
Singapore	R	25	77
Stockholm	C	-1	30
Strasbourg	F	-4	25
Sydney	S	30	86
Taipei	F	22	72
Tangier	C	17	63
Tel Aviv	F	15	59
Tenerife	F	15	59
Tokyo	S	13	55
Toronto	Sn	-5	23
Tunis	F	13	55
Valencia	F	12	54
Venice	S	6	43
Vienna	S	3	37
Warsaw	C	3	37
Washington	S	1	34
Zurich	C	-5	23

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

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Dutch pension fund buys Rodamco stake

By Ronald van de Krol in Amsterdam

ABP, the big Dutch civil servants' pension fund, is to inject more than Fl 2.5bn ($1.4bn) into Rodamco, the Dutch property investment group, in return for a 12.5 per cent stake in the property company itself and holdings of roughly 20 per cent in three of its non-listed subsidiaries.

The transaction is the main feature of a long-awaited strategic alliance in international property investment announced over the weekend between ABP and Rodamco, two of the Netherlands' most powerful financial institutions.

Rodamco, part of the Robeco investment group, owns Fl 8bn in property, mainly in the US, the UK and continental Europe. The capital injection will enable Rodamco to take advantage of new property opportunities while, at the same time, solve ABP's problem of how to boost its investments in international property, currently just a fraction of its huge assets.

ABP, the world's second-largest pension fund with total assets of nearly Fl 160bn, has agreed to buy shares in both publicly-listed Rodamco as well as in three non-listed subsidiaries.

The purchase price will be equivalent to the net asset value of the shares on March 1, 1992, the beginning of Rodamco's next financial year and the official start of the new partnership.

ABP already owns an estimated 2 per cent of Rodamco. "Until March 1, 1992, ABP shall be free to increase its holding in Rodamco shares via the stock exchange," the two companies said. Rodamco closed at Fl 57.70 on Friday. In its mid-year report, the property had given its net asset value as Fl 67.10.

Rodamco's shares have traded at a big discount to net asset value since September 1990, when the company abruptly announced that it was halting its previous daily practice of buying in and selling its own shares to ensure that they traded at net asset value.

The surprise move effectively transformed Rodamco from a open-end to a closed-end fund. Rodamco said it had been forced to act because of a severe drain on liquidity caused by the large number of shares being presented for purchase.

In all, ABP plans to buy an additional 12m shares, of which at least 9m will be new shares to be issued on March 1. Rodamco currently has 111m shares outstanding.

ABP will also take 20 per cent stakes in subsidiaries which group Rodamco's interests in North America, Britain and continental Europe.

The alliance will last a minimum of 10 years and is extendable.

ABP and Rodamco first announced in October that they were considering a partnership. ABP has been seeking ways to catch up in the field of international property investment since 1988, when it was allowed to invest outside the Netherlands for the first time.

Though it has slowly invested Fl 1bn overseas property so far, it has been hampered by a lack of experience and expertise.

INSIDE

Brent Walker reveals Fraud Office findings

Brent Walker, the troubled leisure group, has written to its shareholders ahead of this week's extraordinary general meeting with details of the Serious Fraud Office's investigation into the company. The letter, from chairman Lord Kindersely, is designed to weaken the position of Mr George Walker, the group's founder and former chief executive, who is still fighting the restructuring proposals. Page 14

Trouble at Guidehouse

Guidehouse Group, the lossmaking financial services company quoted on the USM, could face receivership following the collapse of a £2m ($3.6m) rescue rights issue. Mr John East, a group director and managing director of its subsidiary Guidehouse Securities, said the parent company was likely to go into administrative receivership. Page 14

Back to basic for NSM

Having seen an earlier diversification programme fail, the troubled NSM group has now been forced to return to basics. A restructuring exercise, designed to sell non-core assets such as its building industry products, will refocus NSM as one of the largest private coal miners in Britain. Page 14

Cargill approves stock plan

Cargill, the US grain company, has approved the creation of an employee stock ownership plan that will hold between 10 per cent and 30 per cent of the company's common shares. Cargill, long one of the most closely held family companies in the US, made the move to allow younger family members to cash in their shares. Page 15

Nova takes C$675m write-down

Nova Corporation, the Canadian pipeline and chemicals group, will take writedowns totalling C$675m (US$591m), mainly on its troubled chemicals business. This will bring losses for the year close to C$1bn. Page 15

Canadian retailers dismay

Retailers in Canada are facing a bleak Christmas this year following the recent collapse of two well-known women's fashion groups with the closure of 220 stores. M&S Canada, the local lossmaking subsidiary of the British retailer, has already closed several stores, and is now considering more drastic action. Bernard Simon reports on the unseasonal demise of leading stores. Page 15

Market Statistics

Companies in this issue

Maastricht has encouraged investors to look at European government bonds

High interest after summit

By Sara Webb

Europe's government bond markets are ending the year on a bullish note.

The agreement on monetary and political union at the European Community summit in Maastricht last week has heightened investor interest in many of the high-yielding European bond markets. Investors have been encouraged by the agreement on a set date for the single currency and by the insistence of France and Germany that economic convergence criteria must be met.

Investors are keen to buy into those markets where the prospects for economic convergence look favourable – namely those EC member countries which either already meet or which are considered ready to meet the criteria for the convergence of economic performance in inflation, long-term interest rates, fiscal policy and exchange rates.

Many of the European government bond markets – including France, the UK, Spain, Italy, and the Ecu bond market – made considerable gains last week following the successful outcome of the Maastricht summit. "The reaction to Maastricht is a predictable one, as the meeting went well, in that a firm date has been outlined for a single currency and the convergence of bond yields," said Mr Gerard Lyons, chief economist at DKB International, the Japanese-owned bank.

Traders reported some switching out of German government bonds and into these high-yielding markets, but added that US, Japanese and European investors also placed new funds in the European markets.

As a result, the yield on the benchmark 11¾ per cent gilt due 2003/07 closed at 9.523 per cent on Friday, compared with 9.728 per cent at the beginning of the week. In the French government bond market, the yield on the 9½ per cent treasury bond (OAT) due 2001 ended the week at 8.78 per cent, compared with its opening last Monday of 8.91 per cent.

In the Ecu market, the price of the Ecu OAT bond due 2002 climbed from 97.30 before the Maastricht agreement to trade at 98.50 on Friday.

"The clearest winner to emerge from Maastricht is the Ecu," said Mr Kit Juckes, international economist at S.G. Warburg Securities. Economists and investors now feel the Ecu bond market has a clearer future: the eventual need for the Ecu has been established and the Ecu bond market is expected to develop further in coming years.

With a set timetable for the adoption of the Ecu as the single currency, investors have been concentrating on the long end of the Ecu market, namely those bonds which mature after 1999.

Further investment in high-yielding markets which are members of the exchange rate mechanism of the European Monetary System, is also expected to be encouraged, pushing up prices over the next few weeks.

"The whole Maastricht agreement is good for the long end of these bond markets," said Mr Juckes. However, investor interest over the longer-term is likely to be restricted to those markets where the chances of meeting the convergence criteria are good. The convergence criteria are:

- inflation of not more than 1.5 per cent above the average of the three lowest inflation countries;
- long-term interest rates of not more than 2 per cent above the average of the three lowest countries;
- budget deficits of less than 3 per cent of GDP;
- the public debt ratio must not exceed 60 per cent of GDP; and
- the exchange rate must be maintained in the 2.25 per cent narrow bands of the ERM for at least 2 years before the Emu review date.

Only France and Luxembourg already meet the convergence criteria but economists say the UK, Denmark and Holland are in a good position to meet the criteria soon. However, high-yielding markets such as Italy and Spain – which have been popular with European investors because of the prospects for falling interest rates – are now being viewed more cautiously for the long-term as economists point to large budget deficits and high inflation.

Mr David Gibson, head of fixed income at Schroder Investment Management, said: "It is time to be more selective about which markets can continue to converge." He favours the French and UK bond markets, while large budget deficits in countries such as Belgium and Italy are likely to deter investment.

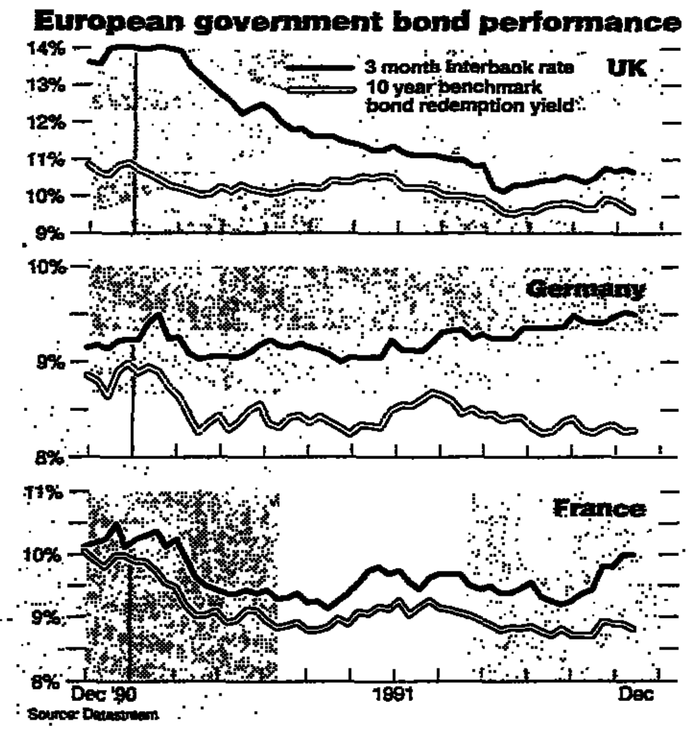
Germany also fails the convergence test on two counts – inflation and the budget deficit. Although the German bond market has suffered in recent months from worries about German inflation, the possibility of higher German interest rates, and the spillover from events in eastern Europe and the Soviet Union, economists believe that the turning point may have been reached.

German inflation is believed to have reached its peak and traders report renewed buying interest in short-dated German paper where investors hope to lock into high interest rates.

All in all, the combination of the Maastricht agreement and the general forecast for weak economic growth in the world economies is seen as favourable for the European bond markets.

International bonds, Page 23

European government bond performance



Source: Datastream

Fresh probe into German stock market trading

By David Waller in Frankfurt

PRESSURE for tougher regulation of German financial markets is mounting following the launch of a new investigation into Frankfurt brokers over alleged tax evasion.

The investigation, launched by the economics ministry of the state of Hesse, focuses on so-called "dividend stripping", an allegedly illegal practice whereby investors take advantage of differences in the way domestic and foreign investors are taxed on dividend income.

Local tax authorities are already investigating the affairs of at least 200 Frankfurt traders following a summer in which the Frankfurt market was convulsed with allegations of rampant insider dealing.

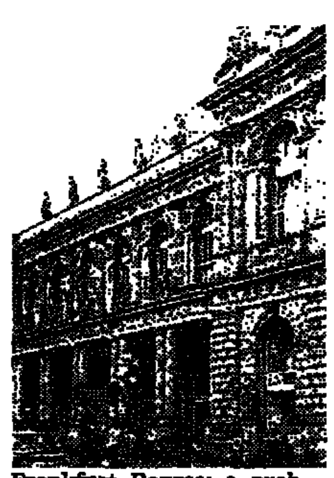
Formal investigations into insider dealing have come to nothing, but there is increasing pressure from the federal government in Bonn for tougher and more centralised regulation of the securities industry.

Mr Horst Köhler, secretary of state at the finance ministry in Bonn, said in October that such a move was essential if Germany were to maintain its international competitiveness as a financial services centre.

Mr Ernst Welteke, economics minister for the state of Hesse, has accused local brokers – known as Maklers – of being involved in widespread and illegal dividend stripping for a number of years.

The charges, denied by the Maklers, were based on a preliminary investigation of a number of broking firms.

The economics ministry of Hesse, in Wiesbaden, is requiring brokers to provide detailed documentation of all dividend receipts in the past year by January 15. The findings will be passed to the Hesse finance ministry which has responsibility for tax affairs.



Frankfurt Bourse: a problem of confidence

German investors are given a tax credit on dividend income and foreign investors are not. If a foreign investor sells shares to a German investor "cum" dividend entitlement immediately before a payout, and buys them back after the dividend payment at a price adjusted to reflect the payment, both parties can benefit: the German investor gets the dividend and the tax credit while the foreign investor buys the same shares back at a cheaper price.

"This is again a confidence problem for the Stock Exchange," said Mr Rüdiger von Rosen, chairman of the Frankfurt Stock Exchange, yesterday.

While calling again for tougher regulation of Germany's financial markets, he said, however, that the Exchange had no authority over the tax affairs of local brokers and the affair could not be described as another "stock market scandal".

Safe haven of Swiss banks under threat

SWITZERLAND reserves many surprises for the newcomer, but perhaps the biggest one these days is the state of its economy.

The country that has built a worldwide reputation for sound money and its prudent public finance suddenly has one of the highest inflation rates in western Europe – 5.5 per cent.

The Swiss franc, that perennial symbol of stability in a volatile world, is looking a bit dodgy and the real economy is anaemic. Output is likely to be down about 0.5 per cent this year and nobody is very sanguine about the pace of recovery next year.

Probing into this extraordinary turn of events, one finds that the Swiss seem to have problems like everyone else. A decade ago, the Swiss National Bank's only concern was to prevent the exchange rate of the Swiss franc from rising too much as result of the large inflows of capital seeking a safe haven. So the central bank pursued a serenely independent policy.

Now, even though the Swiss economy is in recession, the National Bank can be seen worrying about such mundane things as excessive money supply growth and the prospect of more German interest rate increases.

"If we were isolated from the rest of the world, we would do a bit more," Mr Georg Rich, chief economist of the bank, said the other day. Quite.

What has gone wrong? Well, the first answer one hears is disconcertingly simple. "The central bank made a big mistake," according to an economist in Zurich. "The central bank got it wrong," says another. Notice that these comments and others like them are not prefaced with "I think" or "It appears that" or even "Most observers believe".

No, there is no debate on this point, no allowance for differences of opinion on the proper conduct of monetary policy.

Nor are the accusations delivered with any rancour, just a calm acceptance of the fact, as if Switzerland were any old country of 6m people whose monetary authorities could be not quite up to the mark.

The story, as anyone who has followed the course of the Swiss economy even marginally more carefully than me knows, goes roughly as follows.

In late 1987 and early 1988, the National Bank pumped up money supply far more than was necessary, and the country is still paying for it in terms of stubbornly high inflation.

The reasons for this uncustomary excess are, in retrospect, easily understandable. The most important was that the Swiss commercial banks, in search of more efficient ways to run their operations, were introducing an electronic clearing system in the domestic market.

The central bank had to calculate how much liquidity this would take out of the system, and, therefore, how much it would have to raise money supply to prevent a squeeze.

Coincidentally, the stock market crash of October 1987 made monetary authorities around the world fear that economic conditions would deteriorate sharply.

The Swiss National Bank, like other central banks, chose to ease money supply further, and it was not until the following summer that it realised that the economy was continuing to motor along nicely.

The bank aggressively tightened monetary policy from the autumn of 1988, but its efforts were stymied for a long time by the strong demand on Swiss industry coming from booming Germany.

From an unsustainable growth rate of 4 per cent for a while in 1989, the course of gross domestic product turned negative in the fourth quarter of last year and remained so in the first and second quarters of this year.

Still, the inflation rate has remained high, partly because of the large element of indexing in Swiss prices, particularly for rents and public services.

More ominously, the country has not had the weapon, as in previous bouts with high inflation, of a strong currency.

This is the point at which discussion of the Swiss economy can widen to consider the issues surrounding Swiss entry into the European Community, a subject that has inevitably become even more earnestly debated in the wake of the Maastricht summit.

Among the key questions is whether the weakening of the franc is merely a temporary phenomenon arising from monetary policy mistakes. Or is it related to longer-term, structural problems, such as the decline of Switzerland's special status as a safe haven for capital? If so, then the country might do well to scurry for cover within the EC.

The Swiss franc has certainly lost some of its cachet. It has, apart from gold, been the worst performer of the main currencies in the past decade. (Swiss interest rates are still low relative to those in Germany and most other countries, but that is today more a source of anxiety about the stability of the franc and thus a complicating factor in monetary policy making than a source of pride.)

The 'Swissair effect'

Some attribute the relative weakness of the franc to what is called the Swissair effect. It is not that the Swiss have got worse at running an airline or an economy, it is that everyone else has got a lot better.

In particular, the European Monetary System, which was something of a joke in the early 1980s, has become very effective at reducing volatility in western European currency rates and inflation.

Swiss bankers claim that no direct link exists between the stability of their franc and the effectiveness of the safe haven.

The banks see their role as custodians of funds for what they quaintly call high net worth individuals, and they carry out their role in many currencies.

The problem is that the safe haven is also under threat. If the country joined the EC or even the proposed European Economic Area uniting the European Free Trade Association countries with the EC, it would have to conform to EC banking rules.

Some argue that the safe haven is already being eroded as a result of foreign pressure on Switzerland to stop laundering drug money, and they believe the pressure will continue.

It all sounds pretty worrying, but if I were Swiss, I think I would put my money on the Swissair effect coming unstuck.

Economics Notebook
By Ian Rodger

3i told to defer sell-off until after election

By Roland Rudd in London

3i, Britain's largest venture capital group owned by the Bank of England and the clearing banks, is likely to put off its flotation until after the next British general election.

The group has been told by its advisers that it would be unwise to "box itself in" before an election because of the likely volatility of the markets.

When the big UK banks first agreed to the plan, earlier this year, to float 3i they thought the sell-off could take place in March. But the group's advisers favour a later date, next summer or autumn, when the flotation might take advantage of the expected economic recovery and a more settled post-election climate.

The new timetable is likely to be announced when the group reports its interim results, expected later this week. The flotation is likely to value 3i at more than £1bn, ($1.8bn) and the company could be worth as much as £1.5m.

Advisers believe 3i is likely to raise more money after the election, whichever political party wins. "3i is an apolitical stock," said one adviser. "What we need is calmer market waters."

It is still possible the group may override its advisers' advice as some of the banks – in urgent need of additional capital – may continue to argue in favour of the original spring timetable. All the banks, except National Westminster and Barclays, plan to sell their entire shareholdings.

The advisers believe 3i will attract more small shareholders once the recession is seen to have bottomed out.

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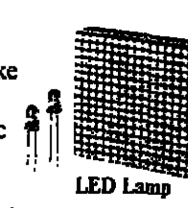

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COMPANIES AND FINANCE

Fresh attack on George Walker

By Roland Rudd

BRENT WALKER, the troubled leisure group, has written to its shareholders in advance of Thursday's extraordinary general meeting with details of the Serious Fraud Office's investigation into the company.

The aim of the letter, from Lord Kindersely, chairman, is to weaken the position of Mr George Walker, the group's founder and former chief executive, who is still fighting the restructuring proposals.

The basis of the restructuring plan is the conversion of £250m of secured bank debt into ordinary shares and preference shares. These proposals, backed by the banks owed more than £1.3bn by the group, need the approval of 75 per cent of the company's shareholders. Failure to acquire the two-thirds support would probably end in Brent Walker being put into liquidation.

Although the banks are confident that Mr Walker's family trusts will soon be in receivership the company fears that Mr Walker will be able to use the shares controlled by him and his trusts to block the restructuring.

The specific allegations against Mr Walker, referred to in Lord Kindersley's letter, relate to the SFO investigations that £12.5m "appears to have been wrongly accounted for in the books of the company and cannot be traced".

The company's solicitors, Simmons & Simmons, wrote to Mr Walker solicitors, DJ Freeman, with the following details of the SFO's investigation.

- A payment of £5m was made to Anglo French Investments in respect for fees for works on related projects, relating to a letter dated July 28 1989 expressed to be from Mr Michael Eland of Anglo French to Mr Walker claiming fees of £5m. Mr Erland has told Brent Walker that no money was received and that the letter of July 28 was a forgery.
- On May 26 1989 Mr Walker authorised a payment of £7.5m to the account of Goldcrest Films and Television with the Arab Banking Corporation in New York, but the company is said not to have received the money.

Mr Walker said: "In the past 10 board meetings no one ever mentioned these allegations against me but instead the board chose to do it through the media. It is an obvious attempt to blacken my name."

George Walker: still fighting proposals

Ramco Energy formed to handle Soviet oilfields

RAMCO Oil Services, the Aberdeen-based oil services company, is creating a separate subsidiary named Ramco Energy to handle its growing involvement in oilfields in the Azerbaijan republic of the former Soviet Union, writes James Buxton.

It intends later to de-merge Ramco Energy and seek a separate Stock Exchange quotation for it, probably by the end of 1992 at the earliest.

Ramco has taken a one per cent stake in a western consortium, where the US oil company Amoco is the operator, in the Azeri field which is in the Caspian Sea. Kaspmorneftegas, the Azerbaijani offshore production association, estimates that recoverable oil reserves are in the region of 1.5bn barrels.

The western consortium has started a detailed feasibility study and proposes to develop and operate the field with Kaspmorneftegas.

Guidehouse could face receivership after rights collapse

By Peggy Hollinger

GUIDEHOUSE Group, the loss-making financial services company quoted on the USM, could face receivership following the collapse of a £2m rescue rights issue.

Mr John East, a group director and managing director of its subsidiary Guidehouse Securities, said the parent company was likely to go into administrative receivership. He stressed, however, that the group's three main subsidiaries were trading profitably.

Bankers have launched an independent inquiry into the parent's financial position, following its request to suspend share trading at 6p last Wednesday night. A report is expected to be published early this week.

Guidehouse is believed to have incurred losses of about £2.5m in six months to June, including write-offs for discontinued activities and £1.5m in extraordinary items relating to a rationalisation programme.

Negotiations for a rights issue to repair the badly-damaged balance sheet were virtually complete on Tuesday when a substantial investor withdrew from the deal.

Mr East said it was likely that he would lead a management buy-out of Guidehouse Securities following the independent inquiry.

FT-SE Eurotrack 100 Index quarterly review

Following the FT-SE Eurotrack 100 Index Quarterly Review meeting, changes to the constituent list, effective 2-1-92 are as follows: For inclusion to the constituent list OMV (Austria) R.A.S. (Italy) Atlas Copco 'A' (Sweden) For exclusion from the constituent list Pirelli (Italy) Thyssen (Germany) Accor (France) Indicative Reserve list: Accor (France) Pernod-Ricard (France) Sanofi (France) Thomson-CSF (France) Bayerische H.& B.Bk (Germany) Bayerische Vereinsbank (Germany) Viag (Germany) ABN Amro Hldgs (Netherlands) Ciba Geigy Br. (Switzerland)

Bison stampede that failed to deliver the goods

Michiyo Nakamoto on the restructuring found necessary for the survival of NSM

TO Mr John Jermine, the soft-spoken head of NSM, recent warnings from leaders of major UK construction companies about the continuing bleak outlook for their markets might very well bring a perverse sense of satisfaction.

The company, of which he became chief executive earlier this year, has just been forced by the uncertainty in the UK construction industry to sell a business that was until recently one of its two main profit earners.

NSM, which has been involved in building products and waste management and is also one of the largest private coal miners in the UK, faces a major restructuring exercise that involves selling all of its non-core interests. When completed, the restructuring will take it back to where it was three years ago – focused entirely on private coal mining.

It is not an experience the group is unfamiliar with, having tripped in its previous attempt to diversify. When it was still trading as Burnett and Hallamshire in mid-1988 the company, mainly involved in coal mining, was faced with a major restructuring and had to accept sweeping management changes and a capital reconstruction to save itself from liquidation.

About that time a few years of over-ambitious expansion into property development in California, among other things, had more than halved its net assets from £59m in 1985 to £25m by 1987. Once over that hitch, however, NSM wasted little time in returning to the acquisition trail – this time guided by former chairman and chief executive, Mr Donald Carr, who came to the group from Tarmac, the building materials group.

Not surprisingly the group began to expand into building products. In 1988 it acquired Bison, a building materials concern specialising in pre-stressed concrete flooring, as a second source of profits to coal mining and proceeded to expand its building products division at a hectic pace.

NSM followed up its purchase of Bison with the £8.5m acquisition last year of Monoliet, a Dutch pre-cast concrete flooring company, and of another small building materials company for £2.5m. It then branched out into air conditioning distribution and installation, plastics and fencing.

It was also building up a waste management division which, NSM's management reasoned, would be a natural extension of its coal mining operations which inevitably create holes in the ground suitable for landfill sites.

"The one asset most waste businesses lack is holes in the ground," Mr Jermine says.

But before NSM could really build up its waste management business the UK went into recession, cash flow from Bison – which the group had counted on – dried up, and it was faced with a mountain of debt that could not be serviced by the amount of profits coming in.

In its ambition to build up Bison's building products business, and to branch out into waste management, the group had allowed borrowings to climb to £105m against shareholders' funds at the March year-end of £52m.

In the six months to September 30, the group posted a pre-tax loss of £1.37m compared with a profit of £7.17m previously. Interest costs of £6.18m were not covered by operating profits of £4.81m.

Until things started to come unstuck towards the end of last year, the group had a rosy vision of profits from its coal operations and Bison augmented by a growing income stream from the waste management business it was beginning to build up.

Bison, itself, had been a reliable profit earner – initially delivering in excess of pre-acquisition expectations.

"Bison was the cash machine of the group," according to Mr Jermine.

"There was a belief that Bison would continue to produce in excess of £11m forever. No one foresaw that stopping."

The building materials subsidiary which had helped transform NSM's flagging fortunes and bring it firmly back to profitability just a few years ago was now being sold to a group led by its former chief executive for less than half of the £82.5m it was bought for. The maximum consideration for the sale is £27.75m.

"Bison is a lovely business," Mr Jermine says.

It has taken a severe beating from the recession in the UK construction industry, but when the recovery in the market comes Mr Jermine is sure Bison will be quick to recover.

That has not, however, happened soon enough for NSM to retain its loss-making subsidiary.

The fire-sale of a business that presumably has a bright future is a last ditch effort by Mr Jermine to save the rest of the group from collapsing under the burden of its debts.

When orders did stop coming in to Bison towards the autumn of 1990, the situation deteriorated rapidly. In the four months from September to December Bison was still receiving a record level of inquiries, Mr Jermine says. But the conversion rate from inquiries to firm orders fell like a stone and never recovered.

By March of this year, when Mr Jermine joined the group, overheads had to be reduced to a level commensurate to what the management believed was "a worst case scenario."

The strategy that Mr Jermine and his team settled on to reduce borrowings was to sell the waste management interests and other peripheral businesses. Until recently, this seemed an attractive solution since NSM had received indicative offers from at least three parties interested in buying its landfill sites as a package, in excess of £20m.

A few months ago, however, even those offers fell through. While the companies interested in the landfill sites spent an inordinate amount of time doing due diligence, market sentiment turned against waste management companies.

With the recession having reduced the volume of waste being produced, combined with weak market sentiment, the willingness to take the risk of waiting for permission on landfill sites simply evaporated, Mr Jermine says.

NSM has been forced, instead, to sell its landfill sites piecemeal for which it expects to get something closer to £10m.

Whatever its past mistakes, Mr Jermine is certain that if the group had been able to see light at the end of the tunnel for the construction industry, it would have been able to obtain funding to hang on to Bison.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
General Electric (US)	Unit of British Airways	Aerospace	£272m	Plant buy completed
Consortium (International)	Units of Sucden (France)	Commodities	£173m	Gardini on comeback trail
Plate Glass and Shatterprufe (SA)	Glass South (SA)	Glass	93m	UK's Pilkington sells stake
Riva (Italy)	Hennigsdorf/Bradenburg (Germany)	Steel	£69m	Ends bitter battle
Harlstone (UK)	Cogetex (France)	Hoisery	£44.1m	Rapid growth continues..
Harlstone (UK)	Aznar (Spain)	Hoisery	£38.5m	...halt called for now
Sukyong (S Korea)/ Samling (Malaysia)	Barama (JV)	Logging	£28m	South American venture
Brambles Industries (Australia)	Security Archives (UK)	Storage	£17.5m	European growth platform
David S Smith	Kayserberg Packaging (France)	Packaging	£154m	Starts continental growth
Weir Group (UK)	Peabody Floway (US)	Pumps	£12m	Fits expansion strategy

Source: FT Mergers + Acquisitions International

UK companies were to the fore in last week's international mergers and acquisitions activity, writes Brian Bollen.

Leather and hosiery group Harlstone continued its rapid development into Europe's third-largest hosiery group. The purchase of Cogetex of France and Aznar of Spain takes the number of acquisitions it has made since 1986 to 23.

David S Smith, the UK's biggest paper manufacturer, announced the first move in its plans for continental European expansion, the purchase of French packaging company Kaysersberg from JA/Mont Holdings.

Engineering group Weir plans to continue its strategy of buying and growing smaller businesses with the purchase of Peabody Floway, a California-based maker of turbine products.

On the non-core disposals front, glassmaker Pilkington continued with the programme it is pursuing to strengthen its balance sheet and focus on its core glass businesses in Europe and the Americas. The proceeds from the sale of its 48.4 per stake in Glass South Africa should cut gearing to about 50 per cent.

US specialty chemicals producer M A Hanna consolidated its foothold in the European colour concentrate market. Dutch chemicals group Akzo is selling Hanna businesses which no longer represent a core activity for it.

General Electric of the US completed its controversial acquisition of the British Airways engine plant at Treforest following approval of the deal by Department of Trade and Industry.

New Interest Rate Bands
Premier Interest Account

From 10 January 1992 a new credit interest rate band at £25,000 will apply to Premier Interest Accounts.

The interest rate bands will then be as follows:

Below £2,500
£2,500 - £9,999
£10,000 - £24,999
£25,000 - £99,999
£100,000 - £999,999
£1 million +

If the balance on a Premier Interest Account falls below £2,500, interest will not be paid for the period when the balance is below £2,500.

The interest rates applicable to each band will be displayed in all branches from 10 January 1992. Full details will be available from any branch of Lloyds Bank.

Lloyds Bank
THE THOROUGHBRED BANK.
Lloyds Bank Plc, 71 Lombard Street, London EC3P 3BS.

HYUNDAI ENGINEERING & CONSTRUCTION CO. LTD
(Incorporated in The Republic of Korea with limited liability)
US$50,000,000
Floating Rate Notes Due 1993
(Redeemable at the option of Noteholders in 1989)
In accordance with the provisions of the Floating Rate Notes, notice is hereby given as follows:
Interest Period : 13th December, 1991 to 15th June, 1992 (185 days)
Rate of Interest : 5-1/4% per annum
Coupon Amount : US$269.79 (per note of US$10,000) US$13,489.58 (per note of US$500,000)
Agent
LTCB Asia Limited

U.S.$100,000,000 Guaranteed Floating Rate Notes due 1994
Citicorp Overseas Finance Corporation N.V.
(Incorporated with limited liability in the Netherlands Antilles)
Unconditionally guaranteed by
CITICORP
Notice is hereby given that the Rate of Interest has been fixed at 6% and that the interest payable on the relevant Interest Payment Date, March 16, 1992, against Coupon No. 52 in respect of US$1,000 nominal of the Notes will be US$15.17.
December 16, 1991, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

U.S. $200,000,000
Groupe CIC
Compagnie Financière de Crédit Industriel et Commercial
Floating Rate Notes Due 1997
Notice is hereby given that the interest payable on the relevant Interest Payment Date, May 15, 1992 for the period November 15, 1991 to May 15, 1992 against Coupon No. 14 in respect of US$50,000 nominal of the Notes will be US$1,327.08.
December 16, 1991, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

Bankers Trust
New York Corporation
U.S. $300,000,000
Floating Rate Subordinated Notes due 2000
For the three months 13th December, 1991 to 13th March, 1992 the Notes will carry an interest rate of 5% per annum and interest payable on the relevant interest payment date 13th March, 1992 will be U.S. $126.39 per U.S. $10,000 Note and U.S. $3,159.72 per U.S. $250,000 Note.
Bankers Trust Company, London Agent Bank

DEVELOPMENT FUND OF ICELAND
(FRAMKVAEMDASJODUR ISLANDS)
(Established under the laws of the Republic of Iceland)
U.S.$35,000,000
Floating Rate Notes 1997
Retractable at holders' option in 1995
Notice is hereby given that the Rate of Interest has been fixed at 5.25% and that the interest payable on the relevant Interest Payment Date June 16, 1992 in respect of U.S.$100,000 nominal of the Notes will be U.S.$2,668.75.
December 16, 1991
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

The Bear Stearns Companies Inc
(A corporation organised under the laws of the State of Delaware, USA)
U.S. $200,000,000
Floating Rate Notes due 1994
For the three month period 13th December, 1991 to 13th March, 1992 the Notes will carry an interest rate of 4¾% per annum with an interest amount of U.S. $120.07 per U.S. $10,000 Note payable on 13th March, 1992.
Bankers Trust Company, London Agent Bank

The Board of Directors of
DOUBLE HEDGE INCOME MANAGEMENT COMPANY S.A.
MANAGEMENT COMPANY OF THE MUTUAL FUND
"DOUBLE HEDGE INCOME FUND"
hereby informs the shareholders of the Double Hedge Income Fund of the fact that by decision of the Double Hedge Income Management Company and Chase Manhattan Bank Luxembourg SA (in its capacity of Depositary of the Fund), the first paragraph of Article 12 of the Management Regulations of the Fund relating to the Acceptance of Applications is amended so as to read as follows:
"Applications shall be accepted by Management Company on the bank business day following the day of receipt thereof, provided the application shall have been received by the Management Company on or before 5 p.m. (Luxembourg time). Payment of the subscription price shall be made within five bank business days following the acceptance of the application."
and the first paragraph of Article 13 of the Management Regulations of the Fund relating to the Repurchase is amended so as to read as follows:
"Shareholders may request the Management Company to repurchase their shares on any bank business day against delivery of their share certificates, if any. Repurchase will be made at the net asset value per share determined on the bank business day following the day on which the request is received, provided such request is received prior to 5 p.m. (Luxembourg time)."
The other provisions of the Management Regulations of the Fund shall remain unchanged.
This change shall be effective as of the first of January 1992.

This notice is issued in compliance with the requirements of The Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("the London Stock Exchange"). It does not constitute an invitation to any person to subscribe for or purchase any of the undermentioned Shares.
Application has been made to the London Stock Exchange for all of the Shares, issued and to be issued, of The First Korea Smaller Companies Fund (the "Fund") to be admitted to the Official List. It is expected that dealings in the Shares will commence on 19th December, 1991.
THE FIRST KOREA SMALLER COMPANIES FUND
(Societe d'Investissement a Capital Fixe incorporated with limited liability in, and under the laws of, the Grand Duchy of Luxembourg RC number B38652)
Placing by Daewoo Securities (Europe) Limited and Smith New Court Securities Limited of up to 2,500,000 Shares of US$2 each at a price of US$10.50 per Share (inclusive of commissions of US$0.50 per Share)
Share capital following the Placing (assuming full subscription)

Authorised		Issued and Fully Paid	
Nominal Value	Number	Nominal Value	Number
US$12,000,000	6,000,000	US$5,000,000	2,500,000

Shares of a par value of US$2 each
The Fund is an investment company whose objective is to provide investors with above-average capital growth by investing primarily in listed securities of small and medium-sized companies in Korea.
Details relating to the Fund are available in the Companies Fiche Service, available from Extel Financial Limited from 3.00 p.m. on 16th December, 1991. Copies of the listing particulars relating to the Shares may be obtained during normal business hours on any weekday (Saturdays and public holidays excepted) up to and including 18th December, 1991 from the Company Announcements Office of the London Stock Exchange, The London Stock Exchange Tower, Old Broad Street, London EC2N 1HP and up to and including 30th December, 1991 from:
The First Korea Smaller Companies Fund, 13 rue Goethe, L-1637 Luxembourg
Daewoo Securities (Europe) Limited, Dashwood House, 12th Floor, 69 Old Broad Street, London EC2M 1QS
Smith New Court Securities Limited, Smith New Court House, 20 Farringdon Road, London EC1M 3NH
16th December, 1991

Toray Industries, Inc.
(formerly Toyo Rayon Kabushiki Kaisha)
S.G.Warburg & Co. Ltd. announce that a dividend of Yen 3.50 per share has been paid to shareholders on the books of the above Company as at 30th September, 1991 in respect of the six month period ended on that date.
Holders of Bearer Depositary Receipts issued by S.G.Warburg & Co. Ltd. may present Coupon No. 18 for payment at:–
S.G.Warburg & Co. Ltd., Paying Agency, 2 Finsbury Avenue, London EC2M 2PA
Banque Internationale à Luxembourg, 2 Boulevard Royal, Luxembourg
Payment will be subject to deduction of Japanese Witholding Tax and in London, United Kingdom Tax (where applicable) at the appropriate rates. Details of tax deduction can be obtained from the Paying Agents.
16th December, 1991

Sonatrach
Societe Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures
U.S. $50,000,000
Guaranteed Floating Rate Notes due 1986 to 1992
For the six months 13th December, 1991 to 15th June, 1992 the Notes will carry an interest rate of 7¼% per annum.
Listed on the Luxembourg Stock Exchange
Bankers Trust Company, London Agent Bank

CNT
Caisse Nationale des Télécommunications
FF 2,000,000,000
Floating Rate Bonds due 1997
Notice is hereby given that for the Interest Period 13th December, 1991 to 13th March, 1992 the Bonds will carry a Rate of Interest of 10.0625 per cent. per annum with a Coupon amount of FF 254.36 per FF 10,000 Bond and FF 2,543.58 per FF 100,000 Bond. The relevant Interest Payment Date will be 13th March, 1992.
Bankers Trust Company, London Agent Bank

PNC Financial Corp
US$100,000,000
Floating rate subordinated notes due 1997
In accordance with the terms and conditions of the notes, the rate of interest for the interest period 16 December, 1991 to 16 March, 1992 has been fixed at 5 ¼% per annum. Interest payable on 16 March, 1992 will be US$132.71 per US$10,000 note.
Agent: Morgan Guaranty Trust Company
JPMorgan

ROYAL BANK OF CANADA
Dividend No. 418
NOTICE IS HEREBY GIVEN THAT a dividend of 29 cents per share upon the paid up common shares of this Bank has been declared for the current quarter and will be payable at the Bank and its Branches on and after 24 February, 1992 to shareholders of record at close of business on 27 January, 1992.
By Order of the Board
Jane E. Lawson
Vice-President & Secretary

U.S. $200,000,000
MARINE MIDLAND BANKS, INC.
Floating Rate Subordinated Notes Due 2000
Interest Rate 5¾% p.a.
Interest Period 16th December 1991 16th March 1992
Interest Amount per U.S. $50,000 Note due 16th March 1992 U.S. $663.54
Credit Suisse First Boston Limited Agent

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COMPANIES AND FINANCE

Nova Corp to take writedowns of C$675m

By Bernard Simon in Toronto

NOVA Corporation, the Alberta pipeline and chemicals group, is capping a tumultuous year by taking writedowns totalling C$675m (US$591m), mainly on its troubled chemicals business.

The move, which will bring the Calgary-based company's 1991 losses close to C$1bn and lop off almost a third of its equity, is part of a concerted strategy to wipe the slate clean since the retirement last August of its long-serving and expansion-minded chief executive Mr Bob Blair. Mr Blair was succeeded by Mr Ted Newall, formerly head of Du Pont's Canadian operations.

The bulk of the writedowns involve assets acquired by Nova three years ago in its C$1.6bn acquisition of Ontario-based Polysar Energy and Chemical. They include cutting the value of Polysar's styrene facilities by C$435m. Another C$175m will cover the cost of closing several styrene businesses. The rest relates to a US polypropylene plant and a Canadian natural gas subsidiary.

Mr Newall said he expects little near-term improvement in North American chemical prices. The styrene business has been especially hard-hit by the switch away from polystyrene packaging caused by environmental concerns.

Nova shelved plans last month to hive off its chemicals division into a separate public company, citing the weak North American market for its products. The company has been concerned that the chemicals business was draining resources from its strong pipeline operations, which collect the bulk of Alberta's natural gas for transmission to other parts of the continent.

The recent shake-up also includes the sale of a 43 per cent interest in Husky Oil, one of Canada's biggest independent oil and gas producers, to Mr Li Ka-shing, the Hong Kong businessman. The Husky disposal is expected to result in a writedown of about C$260m.

Last year, Nova sold Polysar's synthetic rubber division to Bayer of Germany.

Nova's losses in the first nine months of this year totalled C$250m on revenues of C$2.3bn. It made a small operating profit.

● Hongkong Bank of Canada, part of HSBC Holdings, the London holding company for Hongkong Bank, has reported a 6 per cent increase in net income for the year to end-October, 1991 to C$51.8m. Total revenue grew by 8.6 per cent to C$1.12bn.

Mr James Cleave, chief executive, said the bank's satisfactory performance was due to cost controls. Loan losses were also less severe than those of some competitors.

Bleak Christmas in the stores

Bernard Simon on the sombre mood of Canada's retail industry

Christmas has taken on a sombre new meaning for Canada's retailers. Far from putting up festive decorations, some of the country's best-known retail chains are taking advantage of the pre-Christmas shopping season to hang out signs for liquidation sales.

Two well-known women's fashion groups, Town & Country and Ayre's, with 220 stores between them, have collapsed this month. Several others are in financial difficulty and are not expected to survive far into the new year.

Among those examining their future is Marks and Spencer's loss-making Canadian subsidiary. M&S Canada has already closed several loss-making stores, and is now considering more drastic action. Henry Birks & Sons, the country's most venerable jeweller, announced last week that it has sold some of its US stores and plans to shut a dozen outlets in Canada next year.

Far from benefiting from the troubles of the bankrupt and the desperate, more healthy competitors are being damaged too. "Department stores are having to compete against liquidation sales and people committing suicide in the shopping malls," says Mr John Winter, a Toronto retailing consultant.

Ayre's, one of this month's casualties, estimates that sales have tumbled by between 15 per cent 20 per cent this year. Meanwhile, the value of department store sales was 7.7 per cent lower in October than a year earlier.

The fall-out from the retailers' troubles is also hurting shopping mall developers and domestic clothing and textile manufacturers. Lease concessions are becoming commonplace as developers battle to keep their malls full.

Under pressure from hard-pressed shopkeepers, the Ontario provincial government recently backed away from an earlier promise to ban Sunday shopping. It has agreed to allow stores to open on Sundays in the weeks before Christmas. Retailers are confident of further concessions in the new year.

The shake-out in retailing, and especially women's fashions, is only partly due to the general slump in the economy. In retrospect, many chains sowed the seeds of their present difficulties in the mid-1980s by agreeing to pay steep rents in enormous new shopping malls which sprouted in the suburbs of most cities.

With inflation now down to a crawl, the expectation that rents could be recouped by ever-rising prices is turning out to be ill-founded.

Spending patterns have also changed. Women in their late 20s and early 30s who spent heavily on clothes in the mid-1980s have cut down sharply in the past few years as they channel income to higher priorities, such as mortgages and children.

'Department stores are having to compete against liquidation sales and people committing suicide in the shopping malls'

Canadian retailers' woes have been compounded by two forms of competition from the US.

First, shoppers in their thousands flock across the border each weekend to giant "factory outlet" malls in such northern US states as New York, Washington and Maine. The strong Canadian dollar makes US purchases a bargain. But even without the currency drawcard, petrol prices are much lower in the US, and Canadian retailers are less competitive on price, variety and service.

Second, several US clothing chains have stormed into Canada with spectacular success. Ms Jane Inman, director of Canadian operations for Talbots, an upscale Massachusetts-based group, says that the performance of its three stores in Toronto has surpassed expectations since they opened last September, even though prices are some 5 to 8 per cent higher than in the US.

Talbots plans to open another 15 to 20 outlets in Canada over the next few years.

A steep fall in interest rates over the past year has yet to persuade shoppers to open their wallets, and the outlook for the first half of 1992 is bleak.

Retailers hope for an improvement later in the year. However, even then, there is a widespread recognition that demand will not be strong enough to support the plethora of clothing and accessories shops which still dominate most malls.

Investor group seeks single system

By Norma Cohen, Investments Correspondent

A GROUP of 62 institutional investors and brokers who have been seeking to automate their trade confirmation process have sent prospective vendors a description of their requirements as the first step towards selection of a single system.

Later this week, the group will make a formal presentation to up to 20 prospective vendors who are seeking the potentially lucrative contract to provide the service.

Mr John Carter, a director at Morgan Grenfell Asset Management, said the investor group was likely to select two or three vendors, asking them to work jointly to develop a single system. The vendors will be asked to operate with an advisory panel of international fund managers and brokers who will review price increases and urge adaptations to the system, where necessary. The institutions believe that if they can obtain a "critical mass" of investors and brokers to use the same system, it will become the industry standard.

The group expects to hear an assessment of its requirements from the vendors by January 10 and will be meeting overseas fund managers and brokers early next year in the hope of obtaining their participation. Installation of the system is intended to promote global trading in securities.

The group hopes to have a vendor running tests on its system by the middle of next year.

The investor group, led by Fidelity Investments and Morgan Grenfell Asset Management, has been meeting since October to develop a system which would be able to confirm electronically trades across national borders, replacing a cumbersome and expensive process now largely dependent on manual systems.

The group had been provoked to seek a solution on its own after the international banks who are members of the Swift interbank messaging system decided that fund managers should not be allowed to use the system for such functions as trade confirmation and matching.

Since launching their effort with a group of 20 fund managers, the group has won the backing of the International Fund Managers Association, a trade body whose 65 members include some of the UK's largest institutions.

Among the vendors under consideration by the group are the London Stock Exchange's own SEQUAL trade matching system, US-based Depository Trust Co, Canada-based Thomson Financial Services, Financial Models Corp, GE Information Services and Reuters Instalink Service.

Securities exchange set up in Santo Domingo

By Canute James in Kingston

A SECURITIES exchange has been inaugurated in the Dominican Republic as the first step towards the establishment of a stock exchange.

Mr Roseando Alvarez, executive vice-president of the Santo Domingo Securities Exchange, said the "soft opening" will be followed by further details of the way the securities exchange will operate at the start of February.

Trading will be in commercial paper such as bonds and debentures. "Studies indicated that most businesses in the Dominican Republic are family-owned and consequently there are no shares to trade," said Mr Roseando.

Initial trading is expected to be dominated by commercial banks. "The major players will be the central bank, commercial banks and the private sector," Mr Roseando said. "We are anticipating trading in the paper of up to 20 companies by April next year. This will be about one-third of the full potential of the market."

The Dominicans are being helped by the Mexican stock exchange, which has agreed to provide help in establishing judicial and regulatory systems and technology.

There is already a show of interest from foreign companies, mainly in France, Spain and Miami, Mr Roseando said.

Maho reports DM17m loss for year

By Andrew Fisher in Frankfurt

MAHO, a leading German machine tool group, reported a net loss of DM17.3m ($11bn) for the year to end-June, 1991, against a profit of DM14m previously. The German machine tool industry is suffering from a decline in export orders.

Maho intends to cut its workforce of 3,400 people by 800 and see whether more production can be shifted abroad. Some 2,000 Maho employees are currently on short time.

Mr Werner Babel, chief executive, said turnover fell by 10 per cent to DM641m. No dividend will be paid for 1990-1991 after a DM7 payment the previous year. He expected a further drop of 20 per cent in sales this year and continued losses.

To combat the worsening situation, Maho would seek alliances with other machine tool manufacturers, Mr Babel said. One domestic candidate was Deckel, recently acquired by Walter Eder, another German company in the sector.

Maho, which has just announced a co-operation agreement with Bridgeport Machines of the UK, said business had remained stable in Germany until summer, thus helping offset some of the export losses, but had then collapsed.

The company said its order inflow was nearly 20 per cent lower last year at DM576m.

This announcement appears as a matter of record only

ECGD

The Secretary of State for Trade and Industry

acting by the Export Credits Guarantee Department

has sold

Insurance Services Group

the short term business of ECGD

to

NCM Holding N.V.

Financial Advisers to HM Government

SAMUEL MONTAGU & CO. LIMITED

December 1991

10 LOWER THAMES STREET, LONDON EC3R 6AE. A MEMBER OF THE SECURITIES AND FUTURES AUTHORITY.

Numac stake sold for C$70m

By Robert Gibbens in Montreal

A GROUP led by Hong Kong businessman Mr Yu-Tung Cheng is paying C$70m (US$61m) to buy 40 per cent of Numac Oil & Gas, a western Canada oil and gas exploration and development company from the Edper Bronfman group of Toronto.

The control block in Numac has been held for three years by Consolidated Canadian Express, a Bronfman holding company. The price paid by the Cheng group was C$5.50 a share or just above market level, so that a follow-up offer was not required.

Mr Stewart McGregor, whose family owns 7 per cent of Numac, welcomed the new majority shareholder and its commitment to support Numac's growth.

In the first nine months Numac had a loss of $200,000 on revenues of $34m, against profit of C$3m on revenues of $35m a year earlier.

Cargill approves stock ownership plan for staff

By Barbara Durr in Chicago

CARGILL, the top US grain company, has approved the creation of an employee stock ownership plan (Esop) that will hold between 10 per cent and 30 per cent of the company's common shares.

Cargill, which has long been one of America's most closely held family companies, made the decision because younger members of the clan want to cash in their shares. Given that there is no public trading of the company, the Esop will provide them with a market for their shares.

In addition, given that the older generation of the founding families, the Cargills and MacMillans, are increasingly having to pass top management positions to non-family members, the Esop is also a way to give employees a stake in the company.

Cargill warned, however, the Esop is not in any way a step toward public ownership of the firm. At the price contained in the offer the Esop would be valued at between $400m and $1bn, the company said.

Some 12,000 salaried and 7,800 hourly employees in the US will be eligible for the Esop. Cargill employees abroad who are subject to US tax law are also eligible.

It remains unclear how many shares will be tendered. If tenders amount to less than 10 per cent, the Esop plan will be cancelled. If more than 30 per cent are tendered, the offer will be pro-rated.

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 05/12/91	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	167.17	5.88	166.65	161.99	154.99
Government Bonds	165.57	5.72	164.95	160.11	152.31
Municipal Bonds	169.33	6.14	168.99	163.98	156.69
Govt.-guaranteed Bonds	171.53	6.20	171.16	166.63	159.76
Bank Debentures	163.20	5.74	162.80	158.68	152.41
Corporate Bonds	170.02	6.52	169.10	163.51	158.52
Yen-denom. Foreign Bonds	173.56	7.15	173.33	168.00	164.40
Government 10-year†	5.81		5.88	6.20	6.76

† Estimated par yield. Source: Nomura Research Institute

NOTICE OF REDEMPTION

MORTGAGE FUNDING CORPORATION NO. 1 PLC

Class A-1 Mortgage Backed Floating Rate Notes
Due March 2020

NOTICE IS HEREBY GIVEN to Bankers Trustee Company Limited (the "Trustee") and to the holders of the Class A-1 Mortgage Backed Floating Rate Notes Due March 2020 (the "Class A-1 Notes") of Mortgage Funding Corporation No. 1 PLC (the "Issuer") that, pursuant to the Trust Deed dated 31st March, 1988 (the "Trust Deed"), between the Issuer and the Trustee, and the Agency Agreement dated 31st March, 1988 (the "Agency Agreement"), between the Issuer and Morgan Guaranty Trust Company of New York (the "Principal Paying Agent") and others, the Issuer has determined that in accordance with the redemption provisions set out in the Terms and Conditions of the Class A-1 Notes, Available Capital Funds as defined in the Terms and Conditions in the amount of £3,600,000 will be utilized on 31st December, 1991 (the "Redemption Date") to redeem a like amount of Class A-1 Notes. The Class A-1 Notes selected by drawing in lots of £100,000 for redemption on the Redemption Date at a redemption price (the "Redemption Price") equal to their principal amount, together with accrued interest thereon are as follows:

OUTSTANDING CLASS A-1 NOTES OF £100,000 EACH BEARING THE DISTINCTIVE SERIAL NUMBERS SET OUT BELOW

Bearer Notes

38	153	156	240	244	268	269	281	360
380	647	651	679	681	830	886	917	918
993	998	1083	1144	1241	1248	1335	1430	1457
1495	1527	1548	1589	1616	1647	1693	1718	1731

The Class A-1 Notes may be surrendered for redemption at the specified office of any of the Paying Agents, which are as follows:

Morgan Guaranty Trust Company of New York, PO Box 161, 60 Victoria Embankment, London EC4Y 0JP

Morgan Guaranty Trust Company of New York, Avenue Des Arts 35, B-1040 Brussels, Belgium

Union de Banques Suisses (Luxembourg) S.A., 36-38 Grand-rue, L-2011 Luxembourg

Morgan Guaranty Trust Company of New York, 55 Exchange Place, Basement A, New York, New York 10260-0023, Attn: Corporate Trust Operations

In respect of Bearer Class A-1 Notes, the Redemption Price will be paid upon presentation and surrender, on or after the Redemption Date, of such Notes together with all unmatured coupons and talons appertaining thereto. Such payment will be made (i) in sterling at the specified office of the Paying Agent in London or (ii) at the specified office of any Paying Agent listed above by sterling cheque drawn on, or at the option of the holder by transfer to a sterling account maintained by the payee with, a Town Clearing branch of a bank in London. On or after the Redemption Date interest shall cease to accrue on the Class A-1 Notes which are the subject of this Notice of Redemption.

MORTGAGE FUNDING CORPORATION NO. 1 PLC
By: Morgan Guaranty Trust Company
as Principal Paying Agent
Dated: 16th December, 1991

NOTICE

Withholding of 20% of gross redemption proceeds of any payment made within the United States is required by the Interest and Dividend Tax Compliance Act of 1983 unless the paying agency has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the Payee. Please furnish a properly completed Form W-9 or exemption certificate or equivalent if presenting your Class A-1 Notes to the paying agency's New York Office.

BEI EIB

EUROPEAN INVESTMENT BANK

PTE 10,000,000,000

11.75% Bonds Due 1996
Issue Price 101 per cent.

Banco Totta & Açores, S.A. • EFISA - Engenharia Financeira, S.A. • Banco Português do Atlântico, S.A.

Deutsche Bank de Investimento, S.A.

Banco Espírito Santo & Comercial de Lisboa, S.A. • Banco de Fomento e Exterior, S.A.
Banco Nacional Ultramarino, S.A. • Banco Português de Investimento, S.A.
Caixa Geral de Depósitos • Citibank Portugal, S.A.

ABN - Amro Bank NV • Banco Bilbao Vizcaya Portugal, S.A. • Banco Comercial de Macau, S.A. • BANIF - Banco Internacional do Funchal, S.A. • Crédit Lyonnais (Portugal), S.A.
ESSI - Espírito Santo Sociedade de Investimentos, S.A.

Corretora Atlântico - Sociedade Financeira de Corretagem, S.A.
Totta Dealer - Sociedade Financeira de Corretagem, S.A.

Bankers Trust International Limited

Banco Español de Crédito, S.A. («Banesto») • Samuel Montagu & Co. Limited
J.P. Morgan Securities Ltd. • Istituto Bancario San Paolo di Torino
Tokyo Sociedad de Valores (España), S.A.

Autopistas del Atlantico Concesionaria Espanola S.A.

U.S. $115,000,000

Guaranteed Floating Rate Notes due 1993

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the next Interest Period has been fixed at 5% per annum. The Coupon Amounts will be U.S. $256.94 in respect of the U.S. $10,000 denomination and U.S. $6,423.61 in respect of the U.S. $250,000 denomination and will be payable on 15th June, 1992 against surrender of Coupon No. 14.

Bankers Trust Company, London Agent Bank

EUTELSAT
XEU 50,000,000.-
9% 1985/1993

Bondholders are hereby informed that the notice published in the Financial Times and in the Luxemburger Wort dated December 06th, 1991 must be amended with the following modifications:

3 647 instead of 3 637
4 427 instead of 4 447

THE FISCAL AGENT

CREDIT LYONNAIS LUXEMBOURG S.A.

Notice of Payment of
Interim Dividend to the Shareholders

P.T. Inti Indorayon Utama

U.S. $60,000,000

7% Convertible Bonds due 2006 (the "Bonds")

In accordance with Condition 17 of the Bonds notice is hereby given that, at the Meeting of the Board of Directors of P.T. Inti Indorayon Utama held on the 11th day of November, 1991, it was resolved that:

1. Interim Dividend for the account year expiring on 31st December, 1991 shall be determined to be of Rp. 60,- (sixty rupiah) for each share.
2. This dividend shall be distributed to the Shareholders whose names are registered in the Company's Shareholder Register (non-assignable to any Third Party) until 3rd December, 1991, at 10.00 West Indonesia Time.
3. The trade of shares at the Jakarta Stock Exchange and Surabaya Stock Exchange till 26th November, 1991 shall be executed by Cum Dividend and on 26th November, 1991 by ex Dividend.
4. Dividend shall be paid as of 19th December, 1991 to those entitled to by means of sending the dividend cheque to the addresses of the Shareholders, which cheque shall be able to be cashed at Unibank branches throughout Indonesia.
5. The Shareholders desiring to receive such dividends via transfer into the Shareholders' own names shall have delivered the notice and shown the original identities not later than 7th December, 1991 to our Stock Exchange Administration Bureau, P.T. Sirca Datapro Perdana, Jalan Johar No. 18 Menteng, Jakarta 10340, Indonesia.
6. In case of change of addresses, the Shareholders shall notify us in writing by mail, and upon showing the original identities not later than 7th December, 1991, addressed to:

P.T. Sirca Datapro Perdana
Stock Exchange Administration Bureau
Jalan Johar No. 18 Menteng
Jakarta 10340
Indonesia

16th December, 1991

P.T. Inti Indorayon Utama
The Board of Directors

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Maastricht deal sustains good run

GILT yields were pushed down as the good run for the market *continued. Investors took heart* from a stronger pound, signs of *buoyancy from the government* and more evidence of weak inflation.

The terms of the Maastricht deal won by Mr John Major were generally acknowledged as helping the Tories' chances at next year's election, a factor that boosted the gilt market. Sterling was also stronger than for several weeks, attracting foreign investors into gilts.

Looking further ahead, some *gilt practitioners worry that* the less than full enthusiasm expressed by Britain for economic union may weaken the demand from overseas investors for UK government bonds.

However, such worries were *pushed into the background by* official data which pointed to only a sluggish recovery for the UK economy, a development likely to help gilts. During the week the price of the benchmark Treasury 9 per cent *stock maturing in 2008* increased by more than 1 point, to close at around 97$\frac{13}{32}$, for a yield of 9.33 per cent. Shorter dated stock experienced smaller gains. The 10 per cent Treasury bond maturing *in 1994 rose in price by less* than half a point, with its yield declining to 9.6 per cent.

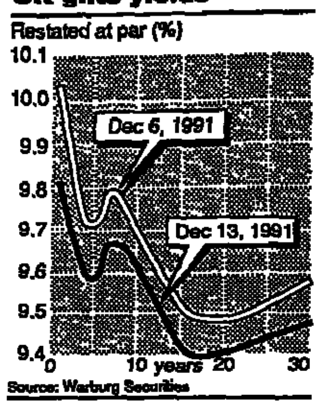
The Central Statistical Office said the price of manufactured *products at the factory gate* rose by 0.4 per cent between October and November and was 5.1 per cent higher last month than in November 1990. In October, the year-on-year price increase was 5.2 per cent. The year-on-year rate in November was the lowest since October 1989, and provides further indications of a weakness in underlying inflation.

Less satisfactory figures for *the gilt market came on Friday*, with the unveiling of the latest data on retail price inflation. The headline figure for the rise in the retail prices index (RPI) compared with 12 months previously increased to 4.3 per cent in November, from 3.7 per cent in October. Much *of this increase was connected* with technical factors, in the form of a reduction in petrol prices and mortgage interest costs a year ago which had the effect of lowering the index for November 1990.

However, there was some concern in the gilt market that a key indicator which many follow for clues to trends in underlying inflation – the RPI less the impact of mortgage changes – showed an increase *from an annual 5.5 per cent* in October to 5.7 per cent in November. That illustrated, according to some economists, that inflationary pressures *might be about to reappear in* the next few months.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

Any waverings by gilt investors on this score were thrust aside in the wake of comments on Friday by Mr Norman Lamont, the chancellor, about the *desirability of sterling* moving to a narrow band within the European exchange rate mechanism (ERM), based on a central rate of DM2.95.

Mr Lamont's remarks were interpreted as ruling out a devaluation of the pound *at the* time of a decision – at some still unspecified point – to join most of the other ERM currencies in a band allowing only a *2¼ per cent margin of movement* about a central rate. As a result, *the pound shot up in* the ERM grid to close on Friday at nearly DM2.88, almost 3 pfennigs up on the week.

The advance in the gilt market was braked slightly by the announcement by the Bank of England on Friday of £1bn worth of new stock, to be issued in partly paid form from today. The 8½ per cent Treasury stock due in 2007 is being issued at a price of 98.25, with *20 per cent of the price due at* the start of dealing.

As for the next few months, many gilt specialists hope the strong recent run of support for the bonds from overseas investors will continue. In the third quarter of 1991, purchases of UK shares, bonds and other financial *instruments by* overseas groups totalled £3.5bn, a large number compared with previous years, although less than the figures of £5.6bn recorded in both the first and second quarters. The large total *for the first six* months – twice as much as the figure for the whole of 1990 – is thought to have been due to sterling-denominated instruments having been made more attractive by Britain's entry last year into *the* ERM.

Peter Marsh

BOND PERFORMANCE

Worldwide returns average 12% this year

THIS year, economic conditions have favoured most of the world's bond markets, which have posted an average *return of nearly 12 per cent for* the year to date, according to JP Morgan's government bond index.

The best returns have come from those countries which sank furthest into recession, *mainly Anglo-Saxon* economies, as inflation dipped and short-term interest rates fell. According to JP Morgan's government bond index, the Australian bond market offered the highest returns at more than 23 per cent in both local currency and dollar terms, with *Canada also offering* just over 20 per cent so far this year in dollar terms. In New Zealand, which is not included in the JP Morgan index, 10-year bond yields dropped by more than 300 basis points. According to an index compiled by Kemper Investment Management, New Zealand government bonds offered more than 21 per cent *in local terms and nearly* 17 per cent in dollar terms.

There are signs that the Anglo-Saxon economies will recover next year, although the pace and extent of the projected rebound remains a mat*ter of some debate. The outlook* in the US, which performed quite well returning 12.70 per cent, remains particularly uncertain, but many analysts are now forecasting that yields in the US will rise over the course of next year, and expect to see net disinvestment.

The other main factor which influenced the strong performance of bond markets this year was the convergence of European bond markets, as the prospect of closer economic union became more immediate.

The higher yielding markets have performed the best: *Spain, where yields fell 200* basis points, posted returns of *over 17 per cent in local cur*rency terms, while Italy posted returns of just over 16 per cent in local currency terms, with yields down 161 basis points.

The UK gilts market also performed well, benefitting *from the economic downturn*, and convergence of European markets. *In local currency* terms, the market returned 17.2 per cent, compared with 9.5 per cent in dollar terms.

Although the strong run of the higher yielding markets may subside next year, many *analysts expect the conver*gence story to remain a key factor, as the impact of the European exchange rate mechanism, and eventual monetary union, grows. The signing of the Maastricht agreement is likely to renew confidence in *European markets, and the* Ecu bond market, which fell off course after a strong perfor*mance in the early part of the* year, could return to favour.

The German market, which suffered from the inflationary effects of unification, returned 10.7 per cent in local currency terms, but only 4.3 per cent in *dollar terms. However, the* market is expected to return to *favour next year, as interest* rates are seen to be peaking.

Consequently, investors are expected to shift funds into Europe next year, across a broad base of markets. In general bond markets are expected *to remain an attractive invest*ment, next year, as total returns are likely to exceed money market returns, according to analysts.

Tracy Corrigan

State of Kuwait
Acting through the Ministry of Finance

US $5,500,000,000
Medium Term Credit Facility

Co-ordinating Bank:
J.P. Morgan Securities Ltd.

Lead Managers:
ARAB Banking Corporation ABC — The Bank of Nova Scotia — The Bank of Tokyo, Ltd.
Banque Indosuez — Banque Nationale de Paris — Banque Paribas
Chase Investment Bank — Chemical Bank — Citibank, N.A. — Commerzbank International S.A.
Crédit Lyonnais — Deutsche Bank Luxembourg S.A. — Dresdner Bank Luxembourg S.A.
The Fuji Bank, Limited — Gulf International Bank B.S.C. — The Industrial Bank of Japan, Limited
Morgan Guaranty Trust Company of New York — National Bank of Kuwait SAK
The National Commercial Bank (Saudi Arabia) — Société Générale — The Sumitomo Bank, Limited
Swiss Bank Corporation — Union Bank of Switzerland — Westdeutsche Landesbank Girozentrale

Co-Lead Managers:
Arab Petroleum Investments Corporation (APICORP)
Bayerische Landesbank Girozentrale, München — The Dai-Ichi Kangyo Bank, Limited
DG BANK
Deutsche Genossenschaftsbank
Bank of Bahrain and Kuwait, B.S.C. — The Bank of New York — Generale Bank
The Hongkong and Shanghai Banking Corporation Limited — The Long-Term Credit Bank of Japan, Ltd.
The Sanwa Bank, Limited

Managers:
The United Bank of Kuwait PLC
ABN AMRO Bank — Bank of Kuwait and The Middle East K.S.C., Kuwait — Burgan Bank S.A.K.
Kredietbank NV — The Mitsubishi Bank, Limited — National Bank of Abu Dhabi
Barclays Bank PLC
Banca Nazionale del Lavoro International — Berliner Bank AG — Credit Suisse
Deutsche Girozentrale International S.A. — The First National Bank of Chicago
Kuwait Foreign Trading Contracting & Investment Co. (KFTCIC) — Lloyds Bank Plc
Mitsui Taiyo Kobe International Limited — The Mitsubishi Trust and Banking Corporation
The National Bank of Dubai Limited — Rabobank Curaçao N.V. — The Royal Bank of Scotland Plc
Südwestdeutsche Landesbank Girozentrale

Co-Managers:
Banca Commerciale Italiana — The Tokai Bank, Limited
Abu Dhabi Commercial Bank — Abu Dhabi Investment Company — Banque Arabe et Internationale d'Investissement
Banque et Caisse d'Epargne de l'Etat, Luxembourg — Landesbank Rheinland-Pfalz International S.A., Luxembourg
Midland Bank plc — Raiffeisen Zentralbank Österreich Aktiengesellschaft — Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien
ASLK-CGER Bank — Arab African International Bank — Arab Bank PLC-Obu-Bahrain
Arab International Bank, Cairo — The Arab Investment Company S.A.A. — Creditanstalt-Bankverein
Credito Italiano, London Branch — The Daiwa Bank, Limited
Deutsche Verkehrs-Bank AG — Girozentrale und Bank der Österreichischen Sparkassen AG
Kuwait International Investment Company s.a.k. — Morgan Grenfell & Co. Limited
The Nippon Credit Bank, Ltd. — Nomura Investment Banking (Middle East) E.C.
Saudi International Bank, Al-Bank Al-Saudi Al-Alami Limited — Swiss Volksbank

Facility Agent:
Morgan Guaranty Trust Company of New York

Kuwaiti Special Adviser:
National Bank of Kuwait SAK

December, 1991 — *This announcement appears as a matter of record only.*

US MONEY AND CREDIT

Pressure for lower rates intensifies

THE ODDS on a discount rate *cut before Christmas are short*ening rapidly. Last week some favourable inflation news, fresh evidence of weakness in retail sales, and the announcement of thousands more projected lay-offs by big blue-chip corporations added to the pressure on the monetary authorities to ease policy one more time before the year is out.

The pressure for lower rates, as always, comes primarily *from the administration*. Mr Michael Boskin, the president's chief economic adviser, told Congress last Thursday he thought the Fed had "ample" room to cut rates without risking a resurgence of inflation.

It would be no great surprise, therefore, if this week's *meeting of the policy-making* Federal Open Market Committee were to sanction a reduction in the discount rate from 4.5 per cent to 4 per cent and quite possibly another lowering of the Fed funds rate, from 4.5 per cent to 4.25 per cent.

Meanwhile, the politicians continue to work to put together a tax cutting package that will aid the economy. The latest suggestion is a tax credit for businesses that invest in *plant and machinery, an idea* that Mr Nicholas Brady seems to favour, although he did tell Congress that such tax credits have been only "somewhat effective" in the past.

Such moves toward fiscal stimulus do not mean that monetary policy is being put on hold. Just the opposite. The Fed, and certainly the White House, believes a combination of looser monetary policy and some carefully selected fiscal pump-priming (ie, whatever the Budget agreement allows) *can restart the stalled engine* of the US economy.

The latest November figures certainly give the Fed room to cut interest rates. Producer prices last month rose by 0.2 per cent, less than analysts' expected. *The consumer prices* number also defied expectations, but in the other direction. The consumer price index rose 0.4 per cent in November, a higher than forecast increase that at first unsettled the bond *market and sent Treasury* prices tumbling.

A second, closer look at the data, however, revealed that a number of one-off factors inflated the headline figure. In particular, rises in the prices of prescription drugs, clothing and gasoline were to blame, as was an unforeseen spike in fruit and vegetable prices.

Take away the volatile food and energy component, and consumer prices rose 0.3 per cent in November. So *far this* year, the consumer price index *has risen at a rate* of 2.9 per cent, hardly the sort of stuff to disturb the sleep of New York's bond traders.

Although the gradual and almost uninterrupted decline in inflation has been good *news for bond markets, in that* it has given the Fed ample room to ease monetary policy and offered protection to investors in fixed-income products, it has created other difficulties.

Falling inflation means nom*inal interest rates have* to decline faster and further if real interest rates are to be brought down to economically stimulative levels. Mr Geoffrey Dennis, economist in New York with James Capel, the UK broking house, *notes that since* last summer Fed funds have fallen from over 8 per cent to 4.5 per cent, the lowest level for more than 20 years.

Yet because inflation has been falling rapidly *in the last* few months, real Fed funds (nominal Fed *funds minus* consumer price inflation) have actually *risen from* a low of 0.7 per cent early this year to 1.5 *per cent* this month: "on this basis monetary policy has been *tightened* since the spring," says Mr Dennis.

The picture is better, however, if core inflation (minus food and energy) is used instead of headline inflation. The real Fed funds rate calculated using core inflation is currently close to zero. In most recent recessions real Fed funds have fallen through zero and into negative *territory, so* Mr Dennis believes both nominal and real Fed funds have further to go before the Fed can be satisfied that its monetary stance is sufficiently accommodating.

All this should be good news for the bond market, and prob*ably will be, although if the* pattern of the past few weeks is repeated, the short end of the maturity range is likely to benefit more than the long end.

The yield curve has been steepening of late because investors have preferred *bills* to bonds, primarily because they fear that an over-generous cut in taxes could revive inflation six to 12 months down the line. As the tax-cutting circus in Washington gets even more attention over what is likely to be a difficult Christmas for *consumers and companies*, the flight to shorter-dated Treasuries will probably continue well into the New Year.

Patrick Harverson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	4.00	4.37	4.75	11.00	2.00
Three-month Treasury bills	4.24	4.34	4.68	8.29	4.24
Six-month Treasury bills	4.32	4.37	4.77	7.70	4.32
Three-month prime CDs	4.55	4.75	5.03	7.17	4.55
30-day Commercial Paper	4.85	4.90	4.90	7.12	4.85
90-day Commercial Paper	4.60	4.70	4.96	7.02	4.60

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	102¼	+¼	6.72	6.74	6.94
20-year Treasury	115[illegible]	-[illegible]	7.54	7.50	7.63
30-year Treasury	102⅝	+[illegible]	7.77	7.80	7.81

Source: Salomon Bros (estimates).

Money supply: In the week ended December 2, M1 rose by $11.5bn to $901.9bn.

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 9 3/4 94	200	107¼	+¼	6.16
ABN 9 1/8 94	200	106¼	+¼	6.49
AETNA LIFE & CAS 7 3/4 16	200	101½	+¼	7.61
ALBERTA PROVINCE 8 5/8 96	750	107¼	+¼	6.88
ALBERTA PROVINCE 9 3/8 95	600	109½	+¼	6.51
AMERICAN EXPRESS 0 00	450	47	+¼	8.75
AMERICAN GENERAL 9 3/4 95	100	106	−¼	7.72
AMERICAN INTL 0 04	750	35½	+¼	8.52
ASIAN DEV BANK 0 04	1000	36¼	+¼	8.34
AUSTRALIA 11 95	200	112½	+¼	6.91
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SARA LEE 9 3/8 93	150	104¾	+¼	6.23
SAS 10 99	200	106¾		8.66
SAS 10 1/8 95	150	108¾	+¼	7.52
SBAB 9 1/2 95	500	109	+¼	6.49
SEAGRAM CO 8 1/2 96	100	103	+¼	7.64
SEARS O/S FIN 0 98	500	58¼	+¼	8.59
SEARS O/S FIN 11 5/8 93	150	108	+¼	6.82
SEARS ROEBUCK EURO 9 3/4 95	500	105¼	−¼	7.87
SNCF 7 1/4 94	175	103¼	+¼	5.57
SNCF 9 1/2 98	150	110½		7.35
STATE BK NSW 8 1/2 96	200	105¼	+¼	7.12
STATE BK STH AUST 9 1/4 93	100	104¼	+¼	5.45
STATOIL 7 5/8 94	200	102½	+¼	6.53
STH AUST GOVT FIN 8 3/4 93	100	103¼	+¼	5.61
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWEDEN 6 1/8 98	300	89¾	+¼	8.39
WORLD BANK 0 15	2000	18¾	+¼	7.31
WORLD BANK 5 3/4 96	300	90¾	+¼	8.37
WORLD BANK 7 1/8 95	500	96¼	−¼	8.35

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	87	−1	7.29
AUSTRIA 4 5/8 98	100	87½	−1½	7.20
CHUBU ELEC POWER 6 3/4 01	300	98¼		6.93
COUNCIL EUROPE 4 3/4 98	250	86½	+1	7.05
EEC 5 1/2 00	100	90		7.04
EIB 6 1/2 98	600	98½	+¼	6.78
ELEC DE FRANCE 7 1/4 06	100	102½	+¼	6.96
FINLAND 5 3/8 95	150	94		7.20
GENERAL MOTORS 7 1/2 95	100	98		8.19
JAPAN DEV BK 5 1/2 94	100	97½		6.90
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TAKASHIMAYA	25/07/95	7½	−¾	
TOYO SASH	02/07/96	16¾	−¼	17.01
YAMANOUCHI PHARM	01/10/94	17¾	+1½	23.62

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on December 13

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هكذا من الأصل

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Algeria on course to complete $1.5bn loan

ALGERIA has met with an encouraging response from the international banking community to the $1.5bn loan launched *two months ago*.

The loan, handled by a group of eight banks co-ordinated by Crédit Lyonnais, is intended to refinance Algeria's principal bank debt between October 1, 1991 and March 31, 1993. A total of $1.38bn has been committed so far and the loan *should* be completed before the first round of Algeria's first multi-party general elections, due on December 26.

Success with this loan will set the seal on Algeria's determination to avoid rescheduling its $25.3bn foreign debt and open the way to a refinancing, a *policy launched* two years ago but which, until earlier this year, met with considerable scepticism from some foreign creditors.

Italy took the plunge earlier this year when it offered Algeria a package of $7bn, $2.7bn of which is earmarked to refinance a number of state guaranteed and other credits falling due between January 1991 and January 1993. Of this figure, $800m can be drawn this year.

The IMF followed with an SDR300m standby credit in June, the second SDR75m of which was cleared last month. *The World Bank agreed to a* $350m Structural Adjustment Loan. Then, after much hesitation, France offered Algeria a FFr7.5bn refinancing, of which FFr2bn can be drawn this year. Negotiations are also under way with Spain, while Japan (which is Algeria's second largest creditor) has provided strong support throughout. Jexim (the Export-Import Bank of Japan) has agreed to lend Algeria $300m in untied loans while Japanese banks are actively supporting Crédit Lyonnais's efforts.

Earlier this autumn, *the EC* offered an Ecu400m loan guarantee, two-thirds of which can be drawn down before the year is out. That loan was strongly promoted by Spain, Italy and, at a later stage by France, but strongly opposed by the UK and the Netherlands.

Two US banks have played an important role. Chase Manhattan has been deeply involved with the Crédit Lyonnais operation while Citibank is leading a separate $1.38bn package, the bulk of which will consist of loans guaranteed by five western credit organisations, most notably the US Eximbank. The funds are earmarked for the revamping of the Liquefied Natural Gas plants of Algeria's state oil and gas monopoly, Sonatrach, and constitute a vital source of foreign income.

Algeria, in many ways can be likened to an oil company with a cash flow problem. The debt is not large if related to export earnings of between $11bn and $12bn annually. Borrowing *short in the two years* before the riots of October 1988 pushed the debt service up to just over 70 per cent of export income, thus starving industry of vital inputs.

The policy of refinancing the debt will be further helped by key amendments to the 1986 hydrocarbons law approved by the National Assembly a month ago. The new law allows foreign companies to participate in the development of existing oil fields, improves exploration terms to give foreign companies the same terms for gas discoveries as for oil and makes provision for arbitration *if disputes arise* between Sonatrach and its foreign partners. The law will stimulate considerable investment. These developments will both earn much needed foreign income next year and help improve production of hydrocarbons, which constitute 98 per cent of the country's foreign income.

The financial help afforded this year suggests the IMF, the EC and the international banks *are encouraged by Algeria's* progress.

Francis Ghiles

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	1,367.8	0.0	635.0	11,361.4
Prev	2,314.2	0.0	197.4	13,317.9
Other	1,986.2	0.0	576.7	9,969.8
Prev	3,766.8	36.7	1,103.8	8,155.4

Secondary Market

	Straights	Conv	FRN	Other
US$	24,392.0	807.6	6,917.7	8,462.5
Prev	32,247.1	798.0	9,028.3	12,086.3
Other	39,337.3	744.7	4,243.5	98,359.4
Prev	54,994.2	711.0	6,606.5	99,901.2

	Cedel	Euroclear	Total
US$	21,967.0	31,977.0	53,944.0
Prev	29,272.3	40,716.9	69,989.2
Other	53,015.8	102,201.8	155,217.6
Prev	63,355.3	111,920.3	175,275.6

Week to December 12, 1991. Source: AIBD

INTERNATIONAL BONDS

Future of asset-backed paper hangs in the balance

A BAD year for UK asset-backed bonds looks set to end on a note of profound uncertainty about the future development of the market.

The year began with a dramatic rise in mortgage defaults which scared many investors from the mortgage-backed bond markets. In January, the *gloom was compounded* by an announcement that banks – important buyers of asset-backed paper – will have to increase the amount of capital they set aside against holdings of bonds.

Over the summer, the liquidity crisis at National Home Loans, *one of the most active* issuers of mortgage-backed bonds, caused further jitters. Earlier this month, a number of issues had their credit ratings cut following a decline in the credit quality of the insurance companies which partially guarantee the bonds.

Now the future development of the market hangs in the balance as accountants, lawyers and bankers argue over whether banks have to set aside capital against loans which have been securitised.

If the outcome is favourable, UK clearing banks and possibly building societies are expected to enter the market next year. In the longer term, this could lead to a massive expansion of the £10bn market.

If the decision makes securitised bond issues unattractive to the banks, the market may *remain stunted*.

Securitisation is a method of taking banking assets, such as residential mortgages and credit card loans, off-balance sheet by selling them to a special-purpose subsidiary which then issues bonds using the assets as collateral.

The idea is attractive because, under current accounting and regulatory rules, lenders do not have to set aside capital against securitised assets.

In the UK, only centralised mortgage lenders, such as National Home Loans and The Mortgage Corporation, and a few consumer finance companies have been active.

However, UK clearing banks have been preparing the *ground for their own mortgage*-backed bond issues. Barclays have already made one issue and other banks are preparing information systems to allow mortgage-backed bond issues to proceed.

In addition, the banks have been working with the Bank of England on methods of securitising credit card debt. This is more complex, because credit *card accounts* are revolving credit lines – which means that the flow of funds between the credit card account holder and the bank is complex.

For example, if many of the credit card loans were repaid, the bonds might have to be called, leaving the bank potentially *short of funding*. This potential "liquidity" risk is one of several issues to be resolved with the Bank of England.

In addition, the relationship between the credit card holder and the bank is close even after the loans have been securitised. This could increase the "moral" pressure to compensate bond holders in the event of widespread default on underlying loans.

But bankers said that progress had been made. The Bank of England has signalled it is willing to accept the additional risk of credit card-backed bond issues, although it may limit the proportion of loans which can be securitised.

However, the negotiations will be academic if banks are forced to set capital aside against assets even after they have been securitised. This would *remove* the primary attraction of securitisation for banks: the creation of additional lending capacity.

There are two sets of regulations which threaten to block banks from the market:

- The UK Accounting Standards Board has proposed that *securitised assets should not* be removed from a bank's balance sheet where there is a flow of earnings accruing to the bank.

This would require banks to show all securitised assets in their published accounts, since as the originator of the loans they receive a management charge and any interest payments which are not passed through to bondholders.

The move is opposed by bankers. They argue that the proposed accounting rule does not reflect the economic reality of securitisation.

However, securitisation could still be attractive under the new accounting rules if securitised assets are excluded from capital adequacy calculations by banking regulators.

The Bank of England has indicated that it does not want to count securitised *assets* in its sums just because of a change in accounting rules. While the ASB is concerned with the earnings which banks receive from securitised assets, the Bank of England focuses on the risk to the banks if securitised assets go into default.

So long as the risk has been transfered to the bond market, banks should not have to maintain capital against the assets.

- The EC Solvency Ratios directive could force the Bank of England to include securitised assets by making *published* accounts the starting point for all capital adequacy calculations.

If the ASB forced banks to show securitised assets on the consolidated balance sheet, the Bank of England would have little choice but to include them in capital adequacy calculations.

The combination of the two proposed laws would make securitisation unattractive for UK banks.

The ASB has met widespread criticism of its proposals and may yet decide to think again.

If it does not, the banks' last *hope lies with another piece of* European legislation, the 2nd Consolidated Supervision Directive, now in draft form. This says that banking supervisors should only include assets in capital adequacy calculations where the banks have a "dominant influence" *over them*.

Hence the future participation of UK banks as issuers in the asset-backed bond market may depend on a fine legal decision on which EC directive takes precedence.

The decision lies with the Treasury, which is responsible for translating European legislation into UK law. However, the Treasury solicitor does not expect to make an early announcement.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Tamura Corp(b)♦†	70	1995	4	3⅞	100	Daiwa Europe	3.375
Alpine Electronics(d)♦†	55	1995	4	3⅞	100	Nomura Int.	3.875
Ryoden Trading(a)♦†	100	1995	4	3⅝	100	Daiwa Europe	3.625
African Devt.Bank(f)†	200	2001	10	7¾	99.31	Goldman Sachs	7.852
Banco Bradesco(h)†	50	1994	2	10	96.595	Citicorp Investment Bk	12.360
Fuji Bank (Lux.)(j)‡†	70	2002	10	(j)	102	Fuji Int.Fin.	-
Cassa di Rismio.d'Torino(u)†	*100*	*1997*	*5*	*7⅛*	*100.85*	*Nomura Int.*	*6.918*
Copene-Petro.d'Nordeste(q)†	50	1993	2	11	96.994	Chase Investment Bk	13.156
STERLING							
Mtge.Securities No.3(k)‡†	63	2035	(k)	(k)	100	Baring Bros.	-
Mtge.Securities No.3(l)‡†	*39*	*2035*	*(l)*	*(l)*	*100*	*Baring Bros.*	-
ECUs							
City of Stockholm(i)†	125	1996	5	9¼	102.10	SBC	8.698
Council of Europe†	200	1994	2	9⅜	100.975	UBS Phillips & Drew	8.822
City of Gothenburg†	100	*1997*	*5*	9⅛	101¼	SBC	8.805
AUSTRALIAN DOLLARS							
Eurofima(m)†	200	2007	15	9⅞	100.4271	Merrill Lynch	10.061
FRENCH FRANCS							
Mitsui Mining & Smelt.(a)♦†	360	1995	4	6⅜	100	Credit Lyonnais	6.375
Compagnie Bancaire(r)†	500	1996	4⅔	9¾	101.905	Credit Lyonnais	9.200
Is.Bco.S'Paolo†	800	1996	5	9½	99.846	CCF	9.540
D-MARKS							
Kaufhof Plus Fin.BV(o)♦†	100	2002	10	8½	101	Commerzbank	8.349
Dresdner Finance BV♦†	500	2002	10	zero	63	Dresdner Bank	4.729
SWISS FRANCS							
Nippon Data Kiki(g)★★§†	35	1996	-	4¼	100	UBS	4.250
Saibu Gas(c)★★♦†	100	1995	-	4¾	100	Yamaichi Bank (Switz)	4.750
World Bank★★†	125	1999	-	7	101¾	Bque.Paribas (Suisse)	6.679
Lion Corp(e)★★♦†	100	1995	-	4¾	100	SG Warburg Soditic	4.750
Magara Construction(s)★★♦	60	1996	-	4¾	100	Coutts & Co.	4.750
Mikimoto Pharmaceutical★★†	10	1997	-	7½	99¾	DKB (Schweiz)	7.562
Kawasaki Electric Co.★★♦	100	1997	-	4⅞	100	Gotthard Bank	4.875
PESETAS							
EIB(n)†	10bn	1996	4¾	11.15	102.95	Banco Bilbao Vizcaya	10.308
GUILDERS							
Oce-Van Der Grinten†	200	1997	5	9⅛	100.85	ABN Amro	8.907
Nationale Investeringsbk.†	200	1997	5	9	101.05	Rabobank Nederland	8.732
YEN							
Inter-American Devt.Bk†	45bn	1996	5	5¾	99.65	Daiwa Europe	5.833
Nissan Motor Co.†	30bn	1997	5¼	6.3	101.60	Nikko Europe	5.929
Oki Electric Industry†	30bn	2000	8¼	6½	101.55	Yamaichi Int.	6.248
Kajima Corp†	30bn	1996	4¼	6.35	101¼	Daiwa Europe	5.999
Kajima Corp†	20bn	1997	5¼	6.35	101½	Daiwa Europe	6.001
All Nippon Airways†	*20bn*	*2000*	*8¼*	*6.35*	*101.85*	*Nikko Europe*	*6.053*
Marubeni Int.Fin.UK(p)†	9.9bn	(p)	-	6.4	101⅝	Nomura Int.	(p)
Seiyo Food Systems★★†	15bn	1999	7¼	6.5	101.55	Kankaku (Europe)	6.221
Maruetsu Inc.†	10bn	1998	6¼	6.45	101½	Daiwa Europe	6.147
Maruetsu Inc.†	10bn	1997	5¼	6.45	101.60	Nomura Int.	6.077
LUXEMBOURG FRANCS							
Credisuez(t)†	1bn	2001	9	9⅜	101⅝	Bque.Indosuez (Lux.)	9.103

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. ♦Variable rate notes. †Final terms. a) Exercise premium fixed at 2.5%. Non-callable. b) Exercise premium fixed at 2.62%. Non-callable. c) Exercise premium fixed at 2.58%. Callable 18/6/94 at 101½% declining ½% semi-annually. d) Exercise premium fixed at 2.62%. Non-callable. e) Callable 19/12/93 at 101%, and 19/12/94 at 100½%. Exercise premium fixed at 2.5%. f) Yankee subordinated issue. Non-callable. g) Put option 31/3/94 at 109½% to yield 8.589%. Conversion premium fixed at 2.5%. h) Coupon payable semi-annually. Non-callable. i) Fungible with existing Ecu175m deal. Non-callable. j) Callable, once only, on 17/1/95. Coupon pays 55bp over Libor for first 3 years, then 9⅛% thereafter. k) Mortgage-backed issue. Callable from 1/95 at par. Average life - 1.59 years. Coupon pays 3-month Libor + ⅛% until 1/95, then 3-month Libor + ⅜% thereafter. l) Mortgage-backed issue. Callable from 1/97 at par. Average life - 4.5 years. Coupon pays 3-month Libor + 0.55% until 1/97, then 3-month Libor + 1% thereafter. Further tranche of £15m, details undisclosed. m) Global issue. Coupon payable semi-annually. Non-callable. n) Matador issue. Fungible with existing Pta40bn deal. Non-callable. o) Callable 1994/95/96 at par. Kaufhof also launching 1m bond warrants. p) 3 tranches, tranche A; amount - Y4.9bn, maturity - 28/2/97, ave. yield - 6.019%. B: Y2.2bn, 23/4/94, 5.622%. C: Y2.8bn, 27/3/98, 6.073. Non-callable. q) Coupon payable semi-annually. Non-callable. r) Fungible with existing FFr1.4bn deal. Management & underwriting fee - 1⅞%, no selling concession fee. Non-callable. s) Callable 8/1/94 at 101% declining ¼% semi-annually. t) Amount increased from LFr750m. Non-callable. u) Issue price decreased from 101.30%. Non-callable. Note: Yields are calculated on AIBD basis.

THIS NOTICE DOES NOT CONSTITUTE AN OFFER FOR SALE AND THE LOAN DESCRIBED BELOW IS NOT AVAILABLE FOR PURCHASE DIRECT FROM THE BANK OF ENGLAND.

ISSUE OF £1,000,000,000

8½ per cent TREASURY LOAN, 2007

SCHEDULE OF PAYMENTS:

On issue	£20.00 per cent
On 13th January 1992	£40.00 per cent
On 14th February 1992	£33.25 per cent

£1,000,000,000 of the above Loan has been issued to the Bank of England on 13th December 1991 at a price of £93.25 per cent.

The Loan will be repaid at par on 16th July 2007.

Interest will be payable half-yearly on 16th January and 16th July. The first interest payment will be made on 16th July 1992 at the rate of £4.1974 per £100 of the Loan.

Application has been made to the Council of The International Stock Exchange for the Loan to be admitted to the Official List; dealings in the Loan are expected to commence on Monday, 16th December 1991.

Copies of the notice in lieu of prospectus may be obtained by post from the Bank of England, New Issues, Southgate House, Southgate Street, Gloucester, GL1 1UW; at the Central Gilts Office, Bank of England, 1 Bank Buildings, Princes Street, London, EC2R 8EU or at any of the Branches or Agencies of the Bank of England; at the Bank of Ireland, Moyne Buildings, 1st Floor, 20 Callender Street, Belfast, BT1 5BN; or at any office of The International Stock Exchange in the United Kingdom.

BANK OF ENGLAND
LONDON
13th December 1991

U.S. $400,000,000

Santander Financial Issuances Limited
(Incorporated in the Cayman Islands with limited liability)

Subordinated Undated Variable Rate Notes

with payment of interest subject to the profits of and secured by a subordinated deposit with

Banco de Santander, S.A. de Crédito
(Incorporated in Spain with limited liability)

Notice is hereby given, that for the Interest Period from December 16, 1991 to March 16, 1992 the Notes will carry an Interest Rate of 5.3125% per annum. The amount of interest payable on March 16, 1992 will be U.S. $3,357.20 per U.S. $250,000 principal amount of Notes.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank

CHASE

December 16, 1991

The Kingdom of Belgium

US$400,000,000
Floating rate notes due December 1999

In accordance with the provisions of the notes, notice is hereby given that the rate of interest has been fixed at 4⅜% for the interest determination period 16 December, 1991 to 15 June, 1992. Interest payable on 15 June, 1992 will amount to US$2,211.81 per US$100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

THE "SHELL" TRANSPORT AND TRADING COMPANY, p.l.c.

Notice is hereby given that a balance of the Registrar will be struck on Monday, 6th January, 1992 for the preparation of the half-yearly dividend payable on the SECOND PREFERENCE SHARES for the six months ending 31st January, 1992. The dividend will be paid on 31st January, 1992.

For Transferees to receive this dividend, their transfers must be lodged with the Company's Registrar, Lloyds Bank Plc, Registrar's Department, Goring-by-Sea, Worthing, West Sussex, BN12 6DA, not later than 3.00 p.m. on Monday, 6th January, 1992.

By Order of the Board
J.A. CUNLIFFE
Secretary
Shell Centre
London, SE1 7NA
16th December 1991

LIVES XXI LIMITED
(Incorporated with limited liability in the Cayman Islands)
U.S.$137,000,000
Secured Floating Rate Notes due 1993

Interest Rate 4.70313% p.a. Interest Period December 16, 1991 to June 16, 1992. Interest Payable per US$10,000 Note US$237.77

December 16, 1991, London
By Citibank, N.A. (CSSI Dept.), Agent Bank

CONTRACTED BUSINESS SERVICES

The FT proposes to publish this survey on February 24th 1992.
It will be of considerable interest to our readership of Chief Executives, Finance Directors, Board Directors and Managers- the very people who have responsibility for employing external contractors. If you want to reach this important audience, call Jessica Perry on 071 873 4611 or fax 071 873 3062

Data source: BMRC 1990

FT SURVEYS

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WOOLWICH
BUILDING SOCIETY

£250,000,000

Floating Rate Notes due 1994

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 11th March, 1992 has been fixed at 10.75% per annum. The interest accruing for such three month period will be £267.28 per £10,000 Bearer Note, and £2,672.81 per £100,000 Bearer Note, on 11th March, 1992 against presentation of Coupon No. 8.

Union Bank of Switzerland

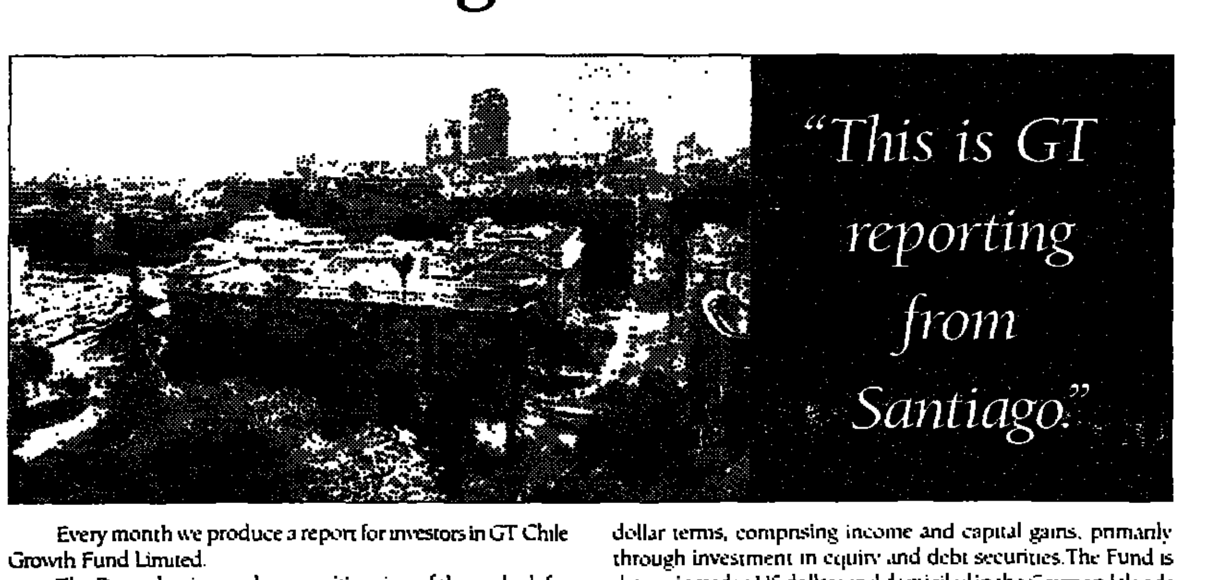
London Branch
Agent Bank

11th December, 1991

GT CHILE GROWTH FUND

DECEMBER REPORT

"Next year, we expect capital inflows into Chile to be encouraged by the easing of foreign investment regulations."



Every month we produce a report for investors in GT Chile Growth Fund Limited.

The December issue takes a positive view of the outlook for next year. It emphasises the benefits of the proposed easing of the restrictions on capital repatriation – and it points out that the outlook for inflation is improving, with the rate for November down to 1%.

Investors have seen net asset value growth of 120% over the 12 months to 30.11.91, and of 141% since launch on 15th February 1990 (Source: GT Management PLC).

The Fund is a closed-end investment company, designed for very sophisticated investors outside Chile, investing primarily in stocks quoted on the Chilean Securities Market.

Its investment objective is to achieve a total return in dollar terms, comprising income and capital gains, primarily through investment in equity and debt securities. The Fund is denominated in US dollars and domiciled in the Cayman Islands. It is listed on the London Stock Exchange. The price of the ordinary shares is published in the Financial Times. The net asset value per ordinary share is published regularly on The Stock Exchange's Company News Service.

Please remember that foreign currency fluctuations may affect the value of your investment and that past performance is not a guide to the future. The value of shares and the income from them can fall as well as rise and you may not get back the amount you invest.

For your copy of the Fund's monthly performance update, simply complete and return the coupon.

To: Lucy Fountain, GT Management PLC, FREEPOST, London EC2B 2DL. CALL FREE 0800 212274. Please send me further information and regular monthly performance updates on GT Chile Growth Fund Limited ☐ I am already a shareholder in GT Chile Growth Fund Limited ☐.

NAME ADDRESS

FT 16/12/91

POSTCODE

GT–INVESTMENT MANAGERS

This advertisement has been issued on behalf of GT Chile Growth Fund Limited by GT Management PLC, a member of IMRO.

WORLD STOCK MARKETS

CANADA

TORONTO

4:00 pm prices December 13

Quotations in cents unless marked $

MONTREAL

4:00 pm prices December 13

Total Sales 12,424,800 shares

INDICES

NEW YORK DOW JONES

	Dec 13	Dec 12	Dec 11	Dec 10	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
φIndustrials	2914.36	2895.13	2865.38	2863.82	3077.15 (18/10)	2470.30 (9/1)	3077.15 (18/10/91)	41.22 (2/7/32)
Home Bonds	97.81	97.73	97.69	97.79	97.92 (12/11)	91.30 (16/1)	97.92 (12/11/91)	54.99 (1/10/81)
Transport	1218.80	1199.74	1160.50	1171.90	1287.56 (18/10)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	217.70	219.20	219.27	219.70	221.64 (2/12)	195.17 (10/7)	236.23 (2/1/90)	10.50 (8/4/32)

φDay's High 2936.72 (2911.67) Low 2893.34 (2861.14)

STANDARD AND POOR'S

	Dec 13	Dec 12	Dec 11	Dec 10	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	384.47	381.55	377.70	377.90	397.41 (13/11)	311.49 (9/1)	397.41 (13/11/91)	4.40 (1/6/32)
Industrials	452.77	448.80	444.53	444.88	472.01 (29/8)	364.90 (9/1)	472.01 (29/8/91)	3.62 (21/6/32)
Financial	30.83	30.60	30.10	30.15	32.54 (13/11)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	211.90	210.44	208.53	208.86	219.37 (13/11)	170.97 (9/1)	219.37 (13/11/91)	4.46 (25/4/42)
Amex Mkt. Value	369.48	366.13	366.48	368.17	392.37 (12/11)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	540.90	536.02	531.64	534.23	556.17 (13/11)	355.75 (14/1)	556.17 (13/11/91)	54.87 (31/10/72)

	Dec 6	Nov 29	Nov 22	year ago (approx.)
Dow Industrial Div. Yield	3.17	3.15	3.15	3.98

	Dec 11	Dec 4	Nov 27	year ago (approx.)
S & P Industrial div. yield	3.22	2.80	2.82	3.31
S & P Indl. P/E ratio	21.05	22.98	22.78	15.89

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Healthtru	7,794,600	13	...
USX-Marathon	2,851,300	22⅛	-⅜
Arkla	2,339,900	11½	-⅜
AT & T	2,022,200	38⅝	+⅛
Glaxo	1,927,300	29⅝	+⅛
Gen Elec	1,890,100	67⅞	+1⅛
Telefonos	1,800,900	41⅛	+⅜
Nat Med Ent	1,791,500	13⅞	-⅜
IBM	1,779,100	88	-⅝
Gen Motors	1,739,700	28½	+⅜

TRADING ACTIVITY

† Volume (Millions)	Dec 13	Dec 12	Dec 11
New York SE	194,470	192,930	206,010
Amex	18,020	13,568	17,801
NASDAQ	(u)	168,068	174,445
NYSE			
Issues Traded	2,183	2,163	2,175
Rises	1,092	1,028	614
Falls	555	594	1,012
Unchanged	536	541	549
New Highs	74	49	39
New Lows	30	56	116

CANADA TORONTO

	Dec 13	Dec 12	Dec 11	Dec 10	1991 HIGH	1991 LOW
Metals & Minerals	2768.41	2760.23	2752.01	2748.75	3299.99 (18/7)	2632.06 (9/1)
Composite	3359.47	3348.42	3351.92	3374.70	3604.09 (12/11)	3161.95 (15/1)
MONTREAL Portfolio	1779.00	1773.57	1776.29	1789.08	1907.35 (12/11)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec 13	Dec 12	Dec 11	Dec 10	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1598.0	1591.9	1564.6	1571.5	1696.3 (8/11)	1204.5 (16/1)
All Mining (1/1/80)	633.5	632.9	622.6	628.8	707.2 (24/7)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	381.95	379.16	379.48	382.71	534.81 (16/4)	379.16 (12/12)
BELGIUM						
BEL20 (1/1/91)	1081.62	1066.60	1061.52	1058.46	1212.15 (17/4)	917.59 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	348.34	347.46	347.68	348.42	380.04 (2/8)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	776.7	779.1	776.7	797.4	1186.9 (8/4)	776.7 (11/12)
FRANCE						
CAC General (31/12/82)	464.01	463.07	458.83	455.44	503.51 (15/11)	394.88 (15/1)
CAC 40 (31/12/87)	1688.27	1671.62	1645.56	1636.93	1887.29 (1/10)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	633.72	629.45	628.22	638.13	717.43 (17/6)	570.48 (15/1)
Commerzbank (1/12/53)	1789.9	1778.2	1773.9	1788.8	2035.2 (31/5)	1612.5 (15/1)
DAX (30/12/87)	1558.34	1546.39	1543.59	1551.11	1715.80 (11/6)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	4155.48	4096.00	4097.23	4128.32	4271.34 (15/11)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1381.95	1354.52	1351.34	1339.85	1520.65 (15/3)	1114.86 (29/1)
ITALY						
Banca Com. Ital. (1972)	492.75	489.75	487.87	482.89	619.38 (3/6)	482.89 (10/12)
JAPAN						
Nikkei (16/5/49)	22754.90	21712.57	21502.90	21953.06	27146.91 (18/3)	21456.76 (19/8)
Tokyo SE (Topix) (4/1/68)	1726.15	1683.04	1666.70	1685.83	2028.85 (18/3)	1625.00 (17/1)
2nd Section (4/1/68)	2503.14	2481.29	2466.62	2485.68	3423.45 (10/5)	2466.62 (11/12)
MALAYSIA						
KLSE Composite (4/4/86)	537.85	532.69	530.90	531.75	635.02 (29/5)	470.41 (16/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	272.4	268.8	267.5	269.1	284.8 (5/6)	221.4 (16/1)
CBS All Shr (End 1983)	191.3	188.8	187.9	189.0	203.1 (5/6)	162.3 (16/1)
NORWAY						
Oslo SE Gen (2/1/83)	662.48	653.73	643.84	647.00	793.53 (26/8)	595.77 (2/12)
PHILIPPINES						
Manila Comp (2/1/85)	1126.10	1125.77	1129.08	1141.13	1183.40 (29/5)	982.64 (10/1)
SINGAPORE						
SES All-Singapore (2/4/75)	392.87	387.66	387.89	388.83	422.43 (26/4)	315.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1194.84	1232.0	1256.8	1290.0	1469.0 (5/7)	971.0 (25/2)
JSE Industrial (28/9/78)	4148.04	4153.0	4157.0	4172.0	4364.0 (13/11)	2829.0 (16/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	(u)	653.40	641.15	635.76	763.10 (6/8)	590.57 (22/6)
SPAIN						
Madrid SE (30/12/85)	240.24	238.97	237.96	240.91	289.22 (18/3)	213.70 (14/1)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	906.9	902.5	902.6	910.1	1149.8 (11/7)	808.4 (8/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	716.7	711.0	707.3	710.7	769.3 (14/11)	590.4 (14/1)
SBC General (1/4/87)	582.0	578.2	575.5	578.5	638.0 (31/5)	487.1 (14/1)
TAIWAN**						
Weighted Price (30/6/66)	4417.06	4439.97	4401.79	4455.76	6305.22 (9/5)	3316.26 (15/1)
THAILAND						
Bangkok SET (30/4/75)	699.69	699.69	695.10	(c)	908.13 (19/4)	582.48 (16/1)
WORLD						
M.S. Capital Intl.(1/1/70) (S)	506.4*	499.6	494.5	498.1	529.2 (17/4)	439.1 (16/1)

**Saturday December 7: Taiwan Weighted Price: 4501.90; Korea Comp Ex. 619.88. *Calculated at 15.00 GMT. & Subject to official recalculation.
Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 13 December 1991

	Stocks Traded	Closing Prices	Change on day
Toyo Ink	21.5	985	+77
Nippon Steel	10.5	369	+3
Toshiba	7.0	640	+10
Osaka Gas	6.9	615	+15
NKK	6.4	350	+11
Hitachi	5.7	921	+6
Hitachi Zosen	5.7	675	+13
Mitsubishi Heavy	6.2	691	+10
Mitsui Sugar	5.2	733	+73
Sumitomo Metal	4.9	367	+6

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FINANCIAL TIMES SURVEY

BANGLADESH

A troubled economy: as volatile as the weather – see page 2.

Aftermath of the nation's most devastating cyclone – see page 3.

Monday December 16 1991


Young cyclone-survivors wave hands to US helicopters carrying relief supplies.


Prime Minister Khaleda Zia : facing labour unrest.


Police attempt to control crowds awaiting food supplies after this year's cyclone.

Hazardous days ahead

Many of the problems that the country now faces stem from the difficulties of transition from military rule to an elected government and from natural disasters, writes David Housego

BANDGLADESH, which has lived much of its 20 years as an independent state under military rule, has this month been celebrating the first anniversary of the return to democratic government.

But the exhilaration that accompanied the downfall of former President H.M.Ershad *in mass street demonstrations* last December has now given way to anxiety over the bitterness of political divisions and over sagging economic growth and investment.

Most universities in the country have been closed for weeks or months because of campus violence in which increasingly well-armed student groups have shot at and killed their opponents. These clashes reflect the depth of antagonism between the two major political alliances - Prime Minister Khaleda Zia's Bangladesh National Party (BNP) and Sheikh Hasina's Awami League – who are competing for the leadership of a student movement that has traditionally set the pace of *political change in the country.*

Labour unrest has gathered momentum with strikes over wage increases and over threatened redundancies in the state-owned jute and and textile industries where the government is seeking to reduce overmanning prior to privatisation. The unrest has been reinforced by the stagnation in the economy.

The growth in real GDP dropped from an average of 4 –5 per cent a year during the 1980s to about 2.5 per cent in 1990–1991. As the population is also growing at an annual *rate 2.5 per cent, there was* thus no increase in real incomes last fiscal year ending June – and the prospects are not much better this year.

The one bright feature has been the continuing boom in the garments industry which has sprung from nothing ten years ago to being the main export industry and employing 500,000 people.

More than a third of garments exports went to the European Community where Bangladesh is now the largest supplier of shirts. Many of the difficulties the country now faces stem from the hazards of the transition to an elected government after nine years of military rule and from volatility of the weather.

*The massive street demon*strations that unexpectedly drove President Ershad from power last year raised popular expectations that would have been difficult for any government to fulfill. The expectations were if anything reinforced by the smoothness with which an interim administration took power in December and organised elections in February.

These – widely judged to be free and fair – gave a narrow majority to the BNP, the conservative,nationalist movement which also had the strongest support amongst the students. Sheikh Khaleda,the widow of General and former President Ziaur Rahman, had shown remarkable tenacity in her opposition to Ershad whom she blamed for her husband's assassination. But neither she, nor most of her ministers had any experience of government.

Political parties also had to learn how to operate in a democratic system without pushing their rivalry to the point of destroying it. While the administration was still feeling its way, Bangladesh was hit by a major calamity. On April 29 *what was probably the worst* cyclone this century struck coastal areas including Chittagong, the country's major port and second largest city.

Well over 100,000 people were killed – the final count seems a good deal less than the 500,0000 at one time feared – and $600m worth of damage inflicted on the port, industry, bridges and housing.

The impact on the economy was even greater with industrial production plummeting 20 per cent in the following quarter. But if inexperience and misfortune are part of the tale behind the government's image of drift, Begum Khaleda herself must also share the blame. *Regal and matronly, her minis*ters and civil servants live in awe of her.

Unable herself to give leadership and direction to her government, she has equally failed to delegate authority to her ministers to do it on her behalf. Policy-making has been indecisive, and at times contradictory. Both the efficiency of the administration and business confidence have been damaged by the drive against followers of President Ershad and those who benefited from his regime.

Senior civil servants have been shifted around in a shake-up that has contributed to the paralysis in decision making. The *upazila parishad* system of local government created by President Ershad has been dissolved without any clear alternative being put in its place. Businessmen – particularly those suspected of being "capitalist cronies" of President Ershad – have had their passports confiscated or face a battery of tax enquiries in a campaign that seems unlikely to bring the corrupt to *justice but which is certainly* discouraging investment.

Most damaging to business confidence was an ill-prepared publication of the names of those alleged to have defaulted on the repayment of loans to the commercial banks. The major consequence of the government's dilatoriness has been a substantial slowdown in development spending which provides the main stimulus to demand and growth in the economy.

In the July-September quarter, outlays from the development budget which is funded by western donor nations, had slumped to a half of what had had been spent in the same period last year. The recessionary impact of this "underspending" has been reflected in falling output in the construction and industrial sectors.

Private investment has further suffered because of the loss of business confidence. Whatever cheer the private sector drew from the government's new industrial policy – promising more deregulation and privatisation – has been dissipated by uncertainties over implementation and over the pursuit of offenders from the Ershad years.

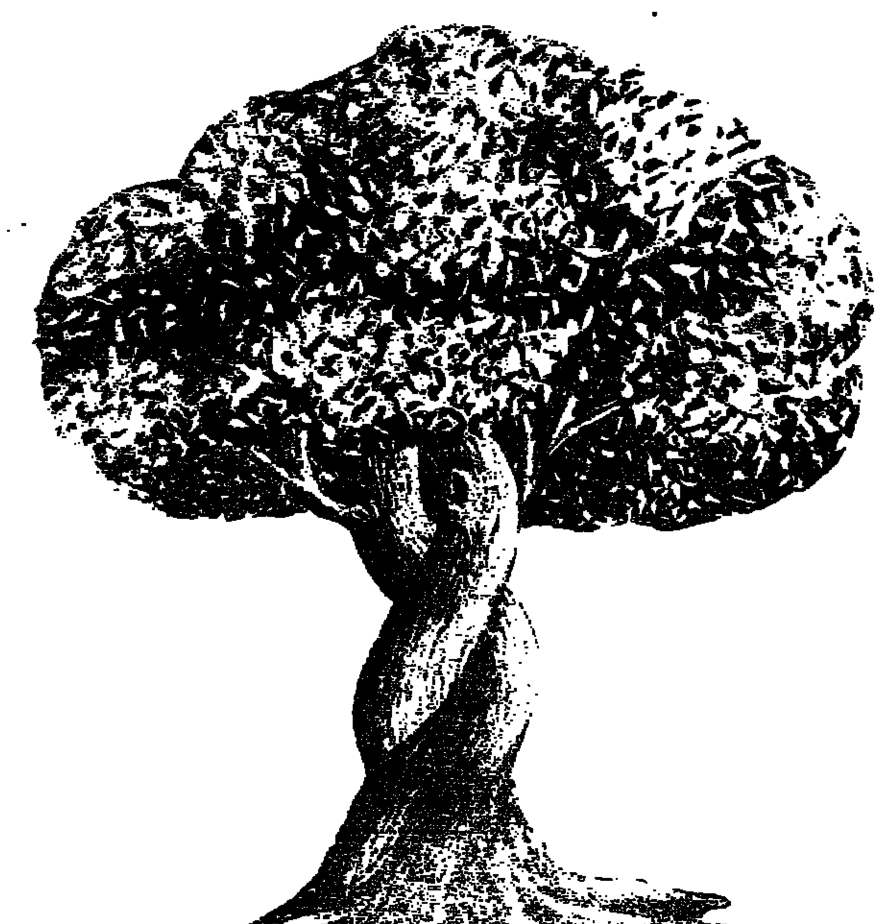
Because of the delay in collecting statistics in Bangladesh, it took some time before *the government and the donor* nations realised the full extent of the "under-spending" on the economy. The donors and the multilateral institutions are now taking this up with Mrs Khaleda Zia. Their embarrassment is that record levels of aid were pledged in the wake of the cyclone which now remain unspent.

The most hopeful scenario for the immediate future is that Mrs Zia will learn from the mistakes of her first few months in power and recast her cabinet to give it the the direction and drive that it now lacks. Her strength is that she is unchallenged within her own party and that it would be difficult constitutionally to dislodge the BNP in Parliament in spite of its small majority.

The danger is that continuing drift and indecision could prolong the country's economic difficulties and lead to worsening labour unrest and campus violence. Neither the Awami League nor the Jatiya Party that President Ershad founded would hesitate to exploit such a situation by encouraging street demonstrations aimed at overthrowing Mrs Zia.

Mrs Zia and Sheikh Hasina are long-time opponents whose whose feuds have polarised Bangladesh politics. The Awami League, which believed it would win the February elections, has not accepted its defeat. Adding to this atmosphere of bitterness, is former President Ershad's determination to revenge himself on those who forced him from power and have since put him on trial. Though now in prison, both he and his Jatiya Party hope that disillusionment with the present government *will* provoke a swing back of public opinion in their favour.

But whichever way the political kaleidescope shakes out, the army seems unlikely to return to politics. The generals played a crucial role in securing the departure of President Ershad last year. They are well aware that public opinion in Bangladesh and abroad would be strongly hostile to a fresh military takeover. In that sense, the return to civilian government was a major – and probably irreversible – step.



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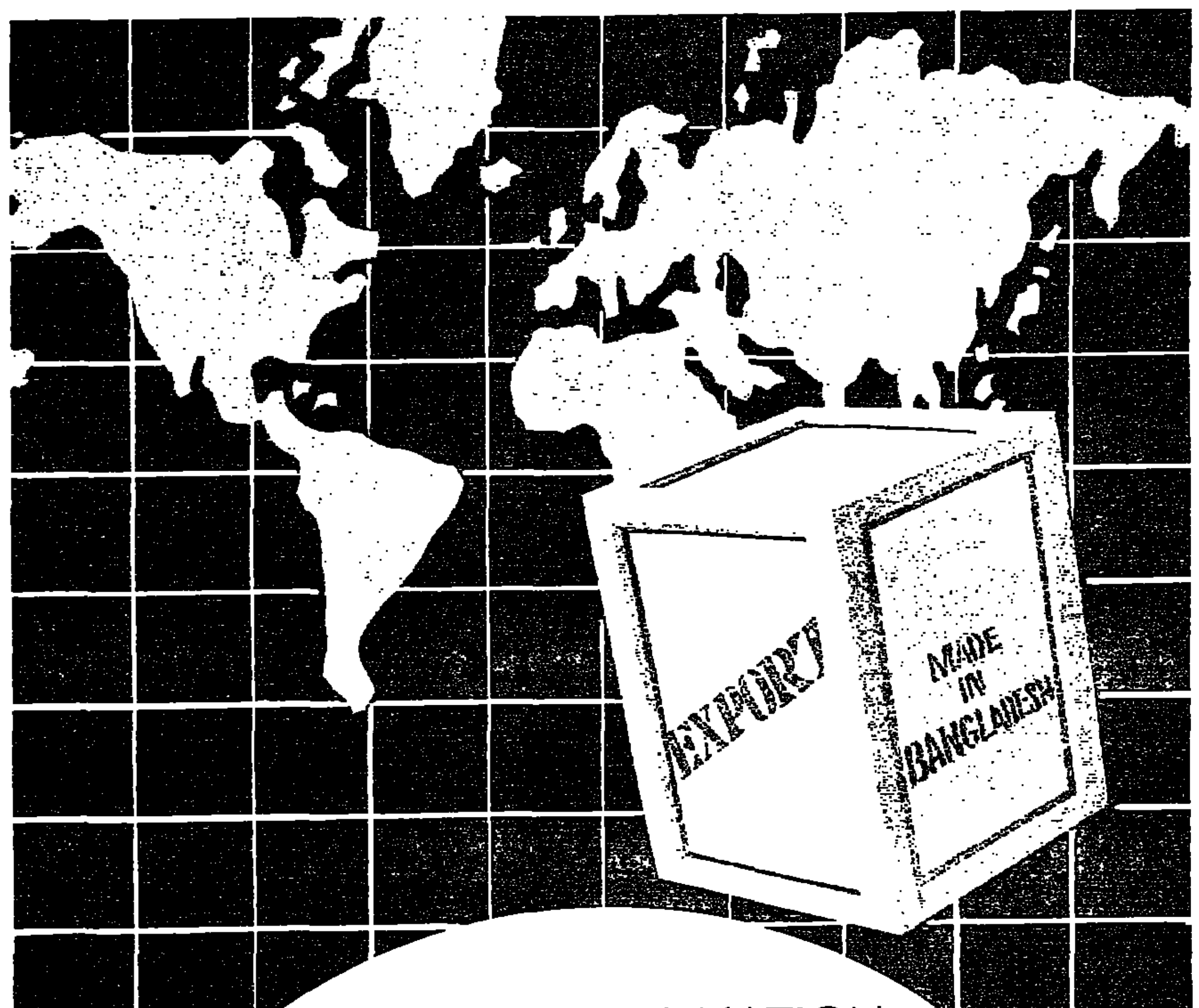

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The latest cyclone brought a severe economic toll

Economy as volatile as the weather

THE ECONOMIC indicators of Bangladesh are rocking up and down like a boat on a troubled sea. Following the domestic political turmoil of a year ago, the cost of the Gulf crisis and the devastation of last April's cyclone, the economy is in a trough and as volatile as the weather. This time round, however, it is showing little sign of recovery.

The government estimate GDP growth for the 1991 financial year ending last June at 3.8 per cent, although more reliable data from donor agencies put it at 2.5 per cent. The latter is equal to the rate of population growth which means that the increase in real GDP in 1991 was zero.

Given the economic and political problems the country had to face, it is perhaps surprising that real GDP did not decline. With annual per capita income of just $175, however, there is little further that the economy could fall.

It is this low starting pointing that sets the economic agenda for Mrs Khaleda Zia's government. If the extremes of poverty are to be alleviated in any measure – and political stability secured – annual GDP growth closer to eight per cent must be achieved.

The government might count itself unlucky for the short honeymoon period it has received in which to turn the economy around.

The downfall of the Ershad-regime last December was forced by mass demonstrations but there was a cost to pay in having people forego work to take to the streets. As reflected by one key economic indicator, imports, the cost was significant. In the second quarter of the 1991 financial year – the period of upheaval – imports declined 10 per cent against the same period of 1990.

Fruit and vegetable sellers in a Dhaka street market

The domestic crisis was mirrored on the international front by events in the Gulf. The additional cost of higher oil imports for the year was about $60m, added to which was the fall in remittances from Bangladeshis working in the region, estimated at about $80m. Even so, total remittances from abroad for 1991 were estimated at $785m, higher than the $759m of 1990.

Last April's cyclone had the worst effect on the economy. Western diplomats estimate that the loss was equivalent to 2¼ per cent of GDP and will have a knock-on effect in the current financial year. Quite apart from the human tragedy, the cost of the damage caused by the cyclone has been estimated by the World Bank at $600m.

The incoming government, therefore, inherited a traumatised economy. There is little sign, however, of the government's own economic programme bearing fruit. This has led to concern among the domestic business community and foreign donors that, even when the rhetoric is right, the government lacks both the political will and the technical ability to push policies through.

When formulating the national budget, expenditure is divided into two parts: current expenditure and the Annual Development Programme (ADP). In principle, the former is to be funded through government revenue, whilst the latter is financed primarily by international donors, although development projects usually require a local funding element.

Under its World Bank-sponsored economic programme, the Government aims to boost revenue through improved collection of taxes, to reduce import tariffs and to cut back the size of the public sector.

A new system of Value Added Tax has been successfully introduced which, despite depressed economic activity, has kept government revenue on target. Import tariffs are also being progressively, if slowly, reduced. Exports, despite a crisis in the key jute sector, are also being maintained, thanks largely to the booming garment trade which will have exports approaching $1bn this year.

The healthy state of revenue is reflected in the government's foreign exchange reserves which have increased from $377m in May 1990 to about $1bn now and rising. And therein lies the problem in the economy: major delays in the spending of development funds.

On the current expenditure side of the budget, the government – under pressure from donors – has refused to make subsidy payments to the jute mills since July and, in rhetoric at least, is preparing to retrench up to 60,000 mill-workers. With banks also withdrawing credit to jute-traders, the purchases of raw jute year on year, upon which about 30m people are partially dependent, has fallen 50 per cent. Recession in the jute sector has affected purchasing power within the economy.

The latter might have been compensated for if the government had kept the ADP – targeted at Taka 75bn ($1.9bn) this year, compared to Taka61bn in fiscal 1991 – on line.

However, ADP spending in the first quarter of this financial year has been just 50 per cent of the equivalent period of last year. Due to political and bureaucratic inertia, the government has failed either to approve the tendering of many projects, or to release necessary counterpart funds.

Government officials say they hope to make up the shortfall in ADP spending but the onset of the rains in April is likely further to delay the progress of many projects. Donor officials have highlighted underspending on the ADP as the root cause of economic stagnation and if current conditions persist any GDP growth this fiscal year will be minimal.

An early sign of donor concern is likely to be expressed in the annual meeting next April during which future funds are pledged. With over $5bn of aid in the pipeline and a mass of aid promised after this year's cyclone disaster, donors may be unwilling to increase their commitments to Bangladesh.

But donors will also be aware that whilst the economy is stagnant, it is not yet in full-scale recession. If flows of development aid are facilitated, the economic picture might be quickly reversed and growth achieved, if only at a moderate level.

It will also be hard for donors, who are aware of the fragile nature of democracy in Bangladesh, to justify the imposition of new conditions on the government solely on the grounds of under-spending. Donors are more likely to use private channels, rather than public admonishments, to persuade the government to confront bureaucratic inertia and restore purchasing power to the economy.

William Keeling

Banks burdened by bad loans

A BIG OBSTACLE to the government's plans for economic growth is a banking sector crisis. After years of mismanagement, many banks have become burdened by bad loans and the government is under pressure from donors to restructure the sector.

The state-owned banks in particular have been used by previous governments to extend loans as a form of political patronage. After taking office in April, the new administration reacted by publishing a list of major defaulters, but the move has been criticised by banks, donors and the business community alike.

The list publication was followed by confusing government statements. Banks were told that new loans were not to be extended to companies on the list, nor to other companies with directors in common without prior approval of the Bank of Bangladesh. This action cut a swathe through the business community, restricting access to credit for many businesses which were indirectly linked to defaulters. The next step was to issue guidelines, without apparent consultation with the banks, that any published defaulter who repaid 10 per cent of the principal would be forgiven 75 per cent of any outstanding interest payments. Most bankers rejected the guidelines out of hand, but were confronted by defaulters who considered the guidelines to be an obligatory decree. Neither has the published list had its desired effect; Mr Saifur Rahman, Finance Minister, admits that "the response (by defaulters) has not been very encouraging."

Whilst government policy may have backfired, the need to restructure the sector remains. At the beginning of 1990, bankers estimated that $350m of refinancing was required to put the four nationalised banks back on a firm footing and the situation is likely to have deteriorated since then.

Many private banks also carry large bad debt portfolios, and the sector suffered a psychological blow in July with the closure of the Bank of Credit and Commerce International.

The government has since attempted to kick-start economic activity by lowering the level of cash assets banks are required to hold with the Bank of Bangladesh. However, bankers say they will remain cautious short-term lenders in the face of confused central policy.

WILLIAM KEELING

Expansion in the garments industry

Area of high potential

WHILE much of industry in Bangladesh is in trouble,the continuing headlong expansion of the garments sector is a reassuring reminder of the immense potential of manufacturing in creating in jobs and exports.

Although the organised economy has shed 1m jobs over the past 10 years, the garments industry has created 500,000 new ones. Exports of garments, mostly to the US and Europe, have doubled over the last three years to over $1bn – meaning that Bangladesh now exports more garments to the US than India and is the European Community's largest supplier of woven goods and T-shirts.

This hectic growth has survived the cyclone and this year's political turmoil – and shows little sign of slowing down. Bangladesh faces only limited quota restrictions in the US and none in Europe.

Buyers from the US and Europe who now find East Asia too expensive as a production centre have seen the attractions of Bangladesh's low-cost female labour and higher productivity. So also have local entrepreneurs who have set up over 1,000 factories in Dhaka and Chittagong – many of them squashed into a handful of rooms in multi-storey buildings.

Most of the cloth and accessories needed are imported. But it seems only a matter of time before there are significant investments in spinning and cloth weaving as the industry begins backward integration.

The one real danger is that inflationary wage increases being pressed in the public sector could spread to the garments industry – thus putting the boom into reverse. But the government's hope that garments would be a stepping board for attracting similar labour intensive investments in electronics, toys or sportswear has not really materialised.

The Chittagong Export Processing Zone (EPZ), which was gaining momentum, received a bad shock from the cyclone and the recent political and labour disturbances. A new zone is under construction near Dhaka – which would have the advantage of being closer to the country's only major airport – but it is too early to know what will be the response to this.

Exports of garments to the US and Europe have doubled in the last three years

The shrimp and leather industries – Bangladesh's two other new export oriented industries – have both suffered from this year's natural calamities and the political difficulties. They have also been hit by India's 25 per cent devaluation of the rupee which has made marine and leather exports from India much more competitive.

The new administration of Prime Minister Khaleda Zia has sought to promote fresh industrial investment through a new industrial policy that promises more deregulation, 100 per cent ownership for foreign ventures and accelerated privatisation. But investment has slumped because of the fall in household demand and because the business community has no confidence in the government or its policies.

"The (economic) slowdown is due to the business community's total lack of confidence in this government," says Mr Salman Rahman, president of Beximco, probably the largest private sector group with interests spread across pharmaceuticals, textiles, jute, marine products, construction and the financial sector.

Mr Rahman was considered close to President Ershad but welcomed the new administration's commitment to pro-business policies.

Industrial output and imports slumped in the wake of the cyclone which which put the port out of action as well as many industries in Chittagong including the steel mill and much of the export processing zone.

Since then, industrial output has continued to fall because the trough in development spending has squeezed industry of contracts and wage earners of income A further deterrent to investment has been the inconsistency of government policies (over the handling of tariff reductions, for instance, or debt repayments to the commercial banks) and the threat of reprisals against industrialists thought to have collaborated with the Ershad regime.

Foreign banks and investors have been discouraged by the confusion that has surrounded the proposed $480m Cafco fertiliser project in which Japanese and other foreign groups hold 70 per cent of the equity. Construction work being carried out by Chyodo, the Japanese engineering group, has been suspended after the government reopened the issue of the price at which gas will be delivered.

The government has announced incentives to boost investment through lowering interest rates and reducing the cash margins on imports. But these measures are unlikely to have much effect until the business community has confidence in a government that can frame policy and carry it through.

In the paralysis of decision-making within the administration little further progress has been made on privatisation. Former President Ershad's government made a start by partially privatising almost 500 units. But the larger companies still remain in the public sector where overmanning is put at 120,000 jobs.

The government's hesitation is the fear of a fresh confrontation with the unions after strikes by textile and jute workers last month had caused widespread disruption. Officials say that a list of 39 more state owned factories have been prepared for disinvestment – including consumer goods, fertilisers, cement, glass, steel tubes and packaging. Foreign companies, as well as domestically-owned ones, will be eligible to bid. A cabinet committee, however, has still to advise on the modalities – meaning that progress is likely to be slow.

David Housego

Cyclone damage near the southern port of Chittagong.

Export Processing Zone

Setbacks at a crucial period

OLYMPIC Mi, a Japanese producer of sports equipment, began to shift a chunk of its manufacturing facilities from Japan to Bangladesh's export processing zone (EPZ) in Chittagong in 1990.

For Bangladesh, the decision of the Japanese company to establish a $50m plant in Chittagong to make shafts for golf clubs and reels for fishing lines was sufficiently momentous for former President Ershad to open the factory. The ceremony on November 27 last year at the EPZ, which lies close to the port and is separated from the sea by sand and palms, was almost his last public function as president.

Back in Dhaka that night he declared a state of emergency in an abortive effort to ward-off mounting street demonstrations that were the prelude to a new period of political uncertainty in the country.

Four months later, Olympic suffered a further setback when the tidal wave that accompanied the April 29 cyclone swept through the plant. Mr Toshikazu Sonoda, the finance manager, points to a water mark about four feet above the ground which shows where the sea and slime lay for some hours. The damage was heavy because virtually all the newly-installed motors and electrical equipment were fixed to the floor.

Olympic has claimed $3m in insurance – which is in process of being settled – but this does not cover the four months work that was lost in replacing and repairing the equipment. After these two reverses – both a reminder that this is a volatile and disaster-prone country – Olympic is not sure whether it made the right choice in relocating to Bangla Desh – "it is too early to say," comments Mr Sonoda.

Other companies thinking about the EPZ are now hesitating over investing in the zone because of similar doubts. For the EPZ authorities, the cyclone and and the political uncertainties – giving rise to fears of labour unrest – could not have happened at a worse time. The EPZ had just begun to make its mark in Asia as a low-cost manufacturing base. Its back-up services – port handling, electric power, telecommunications – were improving.

Reflecting this increased confidence, the number of applications for investment 1990-91 shot up to 90 from 22 the year before. But in the first five months of the current financial year beginning July, there have been only 10 new applications.

The drop largely reflects anxieties over cyclone protection and labour unrest. The encouraging news for the zone is that among companies that have applied to set up factories are over 20 Japanese concerns – mostly medium-sized companies.

Japanese companies already installed praise the high level of productivity that their Bangladesh female operators have achieved.

Minipilo Electric,which assembles indicator lights from components brought from Japan and which only recruits staff who have ten years schooling, says that it has achieved productivity standards comparable to those in Japan.

This means operators inserting 2000-2500 chips a day or carrying out 7,000-8,000 wire-bonding operations a day. Mr Noburo Harako, Minipilo's Japanese manager, thinks that two factors which could impede further expansion of the zone are the lack of sufficient cheap accommodation in Chittagong for operators and the heavy traffic congestion in the town.

Minipilo also says that the once-weekly flight to Narita from Chittagong means that air connexions with Japan are inadequate. Since the zone was set up in 1984, 78 companies proposing to investment $479m have received permission to establish units.

Of these, 41, representing an investment of $49m, are actually in operation; of those functioning, 22 are 100 per cent foreign-owned. Products being made include garments,electronics, videotapes, gloves, sporting equipment and artificial flowers.

A pamphlet issued by the zone authorities says wages for an unskilled labourer are $38 a month and for a skilled labourer $63. Minipilo pays operators earn an average Thaka 2,000 a month.

Regency, which is one of the largest factories in the zone, is a joint venture manufacturer of children's wear in a partnership between Lollytogs of the US and a Sri Lankan group. The company says that facilities at the zone still do not match those available in Sri Lanka –"the Sri Lanka free trade zone is a couple of years ahead when it comes to infrastucture," says a senior manager.

The Regency factory faces the sea; the ground floor was buried under the tidal wave as the sea surged through during the cyclone. Stocks, material and finished garments were lost and the factory took two months to resume full operations. But Regency has since received a $1.5m insurance payment in compensation.

The small sand embankment that was swept away in the cyclone has been replaced. Doubts remain, however, as to whether a more permanent 15-20 foot structure will be put in its place. Though the local government says that a new and more solid structure is almost certain to be built, no final decision has been taken.

David Housego

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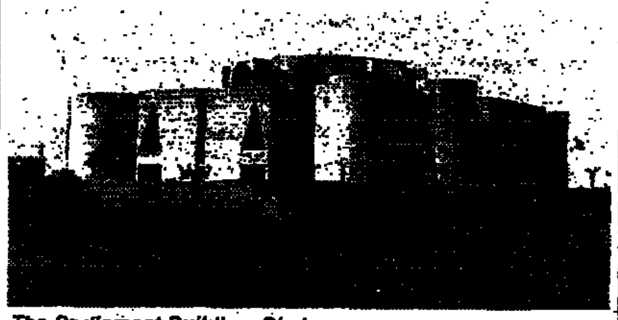
BANGLADESH 3

KEY FACTS

Area	147,000 sq km
Population	108 million (1991 census)
Languages	Bengali; Urdu and Hindi are minority languages; English is also used.
Prime Minister	Mrs Khaleda Zia, (Bangladesh National Party)
Fiscal year	July 1 to June 30
Currency	Taka = 100 paisa
Average exchange rate[1]	1990/91, 35.67 Taka/US$
Numbers	Commonly expressed in crores and lakhs; 1 crore = 10m, written 1,00,00,000; 1 lakh = 100,000, written 1,00,000
Principal exportsc	Jute goods and raw jute, leather, clothing and fisheries products.
Time zone	Six hours ahead of GMT



The Parliament Building, Dhaka.

ECONOMIC INDICATORS

	1989/90	Latest*
Total GDP ($m)[1]	22,400	23,100
GDP per capita ($)[1]	197.1	198.6
Components of GDP (%)[2]		
Private consumption	88.5	n.a.
Total investment	13.2	n.a.
Government consumption	9.5	n.a.
Exports	8.1	n.a.
Imports	−19.3	n.a.
Consumer prices (% p.a.)[1]	9.29	8.95
Reserves ($m)[1]	469	775
Narrow money growth, % p.a.[1]	16.88	12.51
Discount rate (% p.a.)[1]	10.25	9.75
Gross external debt ($m)[3]	10,712	
Debt service ratio (%)[3]	19.9	
Budget deficit (% GDP)[1]	8.13	8.23
Total aid disbursements ($m)[1]	1,810	1,590
Current account balance ($m)[1]	−1,540	−1,120
Exports ($m)[1]	1,524	1,673
Imports ($m)[1]	−3.759	−3,493
Trade balance ($m)[1]	−2,240	−1,820
Main trading partners:[4]	Exports	Imports
US	30.5	5.1
European Community	30.0	15.7
Japan	3.9	13.2
Germany	6.4	3.4
Singapore	2.8	11.1
India	1.3	4.6

Notes: (1) Statistics refer to fiscal years July 1,1989 to June 30, 1990; and July 1, 1990 to June 30, 1991.
(2) Components of GDP in calander year 1989
(3) 1989 (4) Percentage share by value in 1990.
Sources: IMF; Datastream; FT statistics; Economist Intelligence Unit.

Sail-powered cargo boat at Saddarghat, port of Dhaka.

Cattle and crops were totally destroyed on this island in the Bay of Bengal.

A village family stranded by floods in Chapainawabganj district, northwest Bangladesh.

Aftermath of the nation's most devastating cyclone

Row over flood-barrier plan

A ONCE-IN-A-CENTURY occurence? Or a disaster that could soon be repeated? The Bangladesh government and the leading donor nations are still disputing amongst themselves on the probable frequency of major cyclones and how much to invest in measures that would minimise future loss of life and economic damage.

The main debate is over whether to construct a 15−20 ft cement and rock embankment to protect the port of Chittagong which houses the Export Processing Zone (EPZ) and a large part of the country's industry.

Mr Muhammad Omar Farooq, divisional commissioner in Chittagong − and thus the senior civil servant in the region − insists that a solid 18 km-long embankment is essential to prevent continuing erosion by the sea of the major road and rail arterial.

Some donor countries argue against it both on grounds of cost and also because an embankment would not provide absolute security. Mr Farooq calls the cyclone − elswhere in the world known as a typhoon or a hurricane − "the most devastating" Bangladesh has known. The last cyclone of such magnitude was in 1876. This time, a wind-recording instrument on the nearby offshore island of Sandwip registered 225 km/hour before being blown away. The central overcast cloud of the storm − which a force equivalent to several atom bombs − measured 600 kms across.

At Chunnapura village, some way down the coast from Chittagong, a tidal wave about 12 foot high surged in from the sea at about midnight on April 29 crushing huts and bamboo houses. Most of the 2,000 population had already escaped safety on the top floor of the two solidly built houses in the village. But about 300 had not heeded warnings broadcast over the radio or by megaphone in the village − and were drowned.

Apart from the damage it caused to industry and the port in Chittagong, the cyclone destroyed shrimp and salt beds along the coast, drowned cattle, and uprooted areas of natural forest. The World Bank put the economic cost at $600m − equivalent to 2¼ per cent of GDP. More than 100,000 people lost their lives − some estimates say the figure was at least 1,500,000.

In villages near Chunnapura, which lies about one kilometre inland, people complain of a shortage of food because yields have slumped as a result of increased salinity in the soil. Some drinking wells are still salty. But elsewhere along the coast there are reports of a bumper rice crop because of the silt that was deposited by receding waters.

In this region the sea has washed over the coast eight times since the cyclone struck in April. The tidal wave swept from its path a 30-year-old embankment that villagers do not have the funds to replace.

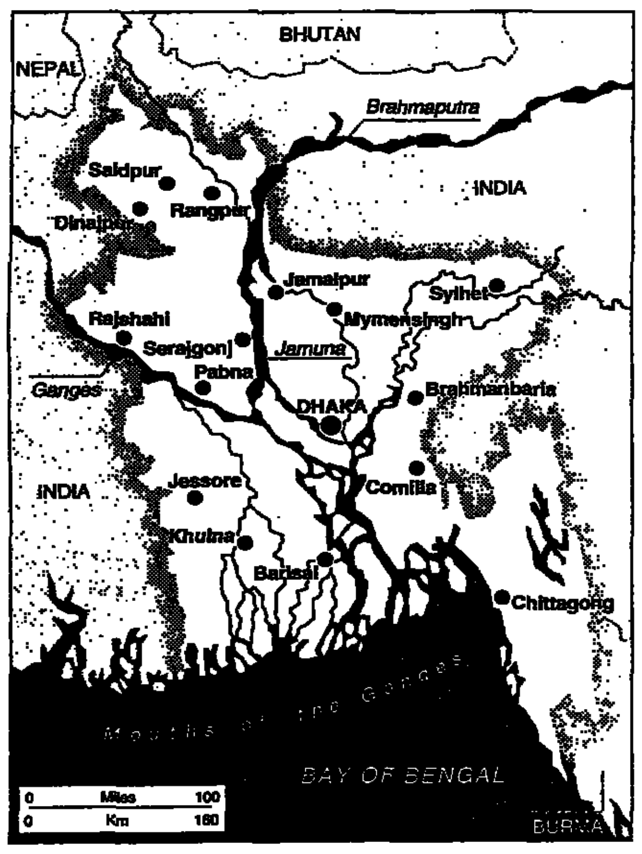
More than 40 non-governmental organisations assisted in immediate relief work in the wake of the cyclone − as well as ships from the US and British navies. Massive outbreaks of dyssentry were prevented by large scale distribution of water-cleansing tablets.

The great lesson that has been drawn from the cyclone is the need for strongly-built shelters along the coast, each two or three storeys high, to which people can escape in time of danger. Aid agencies and NGOs are already involved in a construction programme. Mr Farooq says that 392 will be needed in villages in the Chittagong division in addition to the 146 that exist. His belief is that the shelters should be provided with basic food and medical facilities while also serving as schools or places of worship.

Wrapped up in the dispute over the building of an embankment to protect Chittagong is the future of the city and the country's major port. Without a permanent embankment − which the government says would cost Taka 2.2bn − the city will remain vulnerable to heavy storms. The cyclone almost blocked the port by sinking boats in the channel that gives access to it. But some foreign missions in Dhaka argue that it would be cheaper to move the Export Processing Zone (and much of industry with it) to higher ground away.

The other drawback to a permanent embankment is the risk of its being breached. If that *did* occur, then the suction of retreating sea water would scoop out part of the town as well.

David Housego



The Grameen Bank concept wins international fame

For the poorest of the poor

A REMARKABLE institution in Bangladesh whose success has justly won international fame for both it and its founder, Professor Muhammad Yunus, is the Grameen Bank.

The bank lends exclusively to the poorest of the poor and currently charges an interest rate of 20 per cent −"if you can prove you own nothing, you get the highest priority," says Dr Yunus in a characteristically provocative defiance of the conventional insistence by South Asian banks on lending being backed by collateral.

But Grameen recovers 99 per cent of its loan portfolio and is profitable − which is more than can be said of most other banks in Bangladesh.

Most of Grameen's loans go to helping landless villagers start a business activity of their own − rice husking, animal and poultry husbandry, handicrafts, repair and maintenance work. It has lent Taka 7.2bn to a million borrowers (92 per cent of them women) since it started operations in 1982 and it has 781 branches.

Its success has led to it being copied in 30 countries in Asia, Africa and South America.

At the heart of the Grameen concept is the belief that a small group of villagers are the *best judge of who can benefit* from a loan and pay it back. Grameen thus starts operations in a new area by identifying a core group of five villagers − all poor and owning no more than a half an acre each of cultivatable land. It only starts lending in a village when it has established six such groups. The groups choose who among their members will receive loans.

*Peer group pressure and dis*cipline ensure that loans are repaid. Loans are disbursed in installments and repayments collected at weekly meetings of the 30 members who constitute the basic Grameen unit. By complete transparency in all its transactions, Grameen protects itself corruption and the syphoning-off of loans to the more powerful in the village − which are the evils of much rural banking in South Asia.

Professor Yunus attributes much of Grameen's success to its being a commercial operation insisting on commercial *criteria in its lending.*

"It no good providing charity," he says. "That kills people's self-respect. When you put a challenge before people, that's when they challenge themselves." The bulk of the borrowers are women because they give more priority to the long-term interest of the family and their children. Average loans are between Taka 2,000-5,000 each − with larger loans of Taka 125,000 available for housing once a borrower has established his creditworthiness.

The scheme has been such a success that Grameem has no problem raising capital from aid agencies nations and institutions like the Ford Foundation. Grameen as bank has only been in operation for nine years. But Dr Yunus launched the scheme much earlier after feeling during the 1974 famine that his work as university professor at Chittagong university was irrelevant to the rural misery he saw.

"Out in the real world I learned that people are much more capable of taking care of themselves than is piutured in the text books," he told an audience in India recently.

"I tried to demonstrate that credit to the poor can create self-employment and generate income for them. Men, women, and children all can benefit from credit. Soon I found that giving credit to poor women brings more benefits to a family than giving it to the men."

India, Bangladesh's larger neighbour,is noticeably absent from the list of countries to have drawn on the Grameen concept.

David Housego

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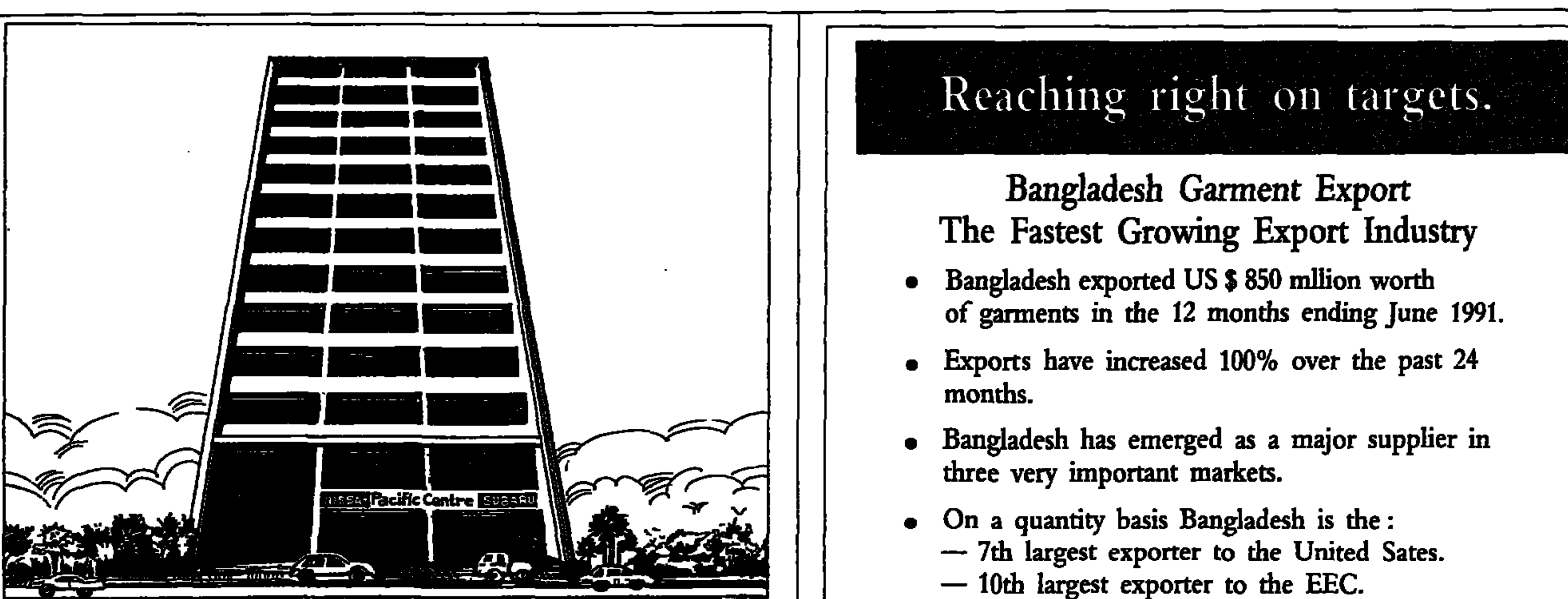

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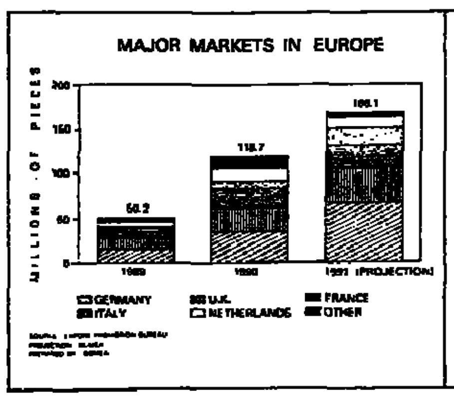
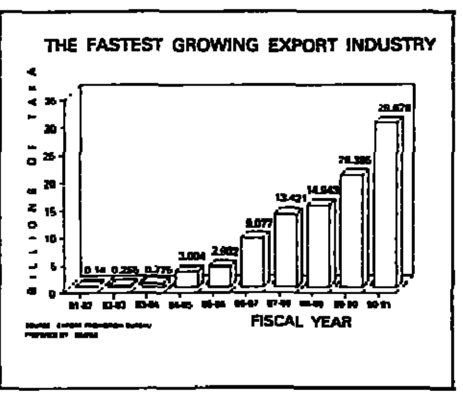




BANGLADESH GARMENT MANUFACTURERS & EXPORTERS ASSOCIATION

BANGLADESH 4

AGRICULTURE

The heart of the economy

IN BANGLADESH, water plus land equals rice. The riverine delta area which the nation occupies – flat, fertile and with copious quantities of water – appears purpose-built for rice production. Even so, with a population estimated at 108m, Bangladesh has struggled to feed its own people.

Agriculture remains at the heart of the Bangladeshi economy, accounting for close to 40 per cent of GDP and with about 80 per cent of the population dependent on it.

Since the mid-1970S successive governments have made increased agricultural output a priority with some degree of success. Since fiscal year 1981 foodgrain production, dominated by rice, has risen from 14.9m tonnes (then a record crop) to an estimated 19.2m in 1991.

The increase has been largely due to greater use of irrigation and fertiliser which has, in particular, boosted the winter season rice crop from 2.6m tonnes in 1981 to 6.5m tonnes in 1991. Foodgrain demand in Bangladesh was estimated at about 20.5m tonnes last year, so self-sufficiency is within reach.

The area of land under irrigation expanded by over 90,000 hectares a year from 1978-90 and donors estimate that for every 100,000 hectares irrigated, foodgrain production is boosted by 250,000 tonnes.

The expansion of irrigated land has been built upon the use of small to medium scale, privately-owned, systems. This has been aided by the removal of import duties on small diesel engines used to pump the water, and the abolition of standardisation restrictions which had prevented imports of low-cost Chinese engines. Indeed, donors say they will not fund further large scale, state-administered, irrigation projects until the government has shown itself able to manage those already in place.

There has also been a dramatic increase in the use of fertiliser, due mainly to the removal in 1989 of the state-owned Bangladesh Agricultural Development Corporation's monopoly of the wholesale fertiliser trade.

Sales increased by 21 per cent in 1990, despite the elimination of subsidies on phosphate fertiliser, although the use of fertiliser in Bangladesh is still low relative to other countries in South Asia. Donors estimate that 90 per cent of fertiliser distribution and sales are now in private hands.

There is also substantial room to expand irrigation. Of the 7.5m hectares of land suitable for cultivation in Bangladesh, only 2.6m hectares is irrigated and 14 per cent of this through inefficient traditional means.

There is also a plentiful supply of water. Donors estimate that the recharge (available water which is naturally replenished) in Bangladesh is 21bn cubic metres a year, of which only 12bn is currently being utilised. There have been some negative side-effects from the drive towards self-sufficiency in food-crops. Some donors point out that rice cultivation has taken over land normally planted to alternative crops. As a result, the human diet in terms of protein and nutrition has deteriorated, and Bangladesh is becoming more vulnerable to the vagaries of a one-crop economy.

This problem has been recognised, and a programme of crop diversification, funded by the Canadian development agency CIDA, has been initiated. The programme may, however, have an uphill battle to succeed. Figures for production of pulses, oilseeds, sugarcane, potatoes, tea and tobacco show no growth at all over the past 10 years.

In other agricultural sectors, the already small livestock sector was badly hurt by last April's cyclone with over 400,000 cattle, goats and sheep estimated lost, as well as 2.4m poultry. Forest resources are also suffering depletion in several areas. In the Chittagong Hill Tracts in the south-east of the country indiscriminate cutting of trees has left 1,000 square miles reported barren and unfit for agriculture.

Production of jute, the country's main export crop, is also likely to decline in the near future due to a financial crisis amongst traders and millers. The challenge will be to persuade farmers to replace jute with a crop other than rice. But a lack of storage facilities and a poor distribution system increases the risk for farmers of non-traditional crops, whilst for rice there is a captive market.

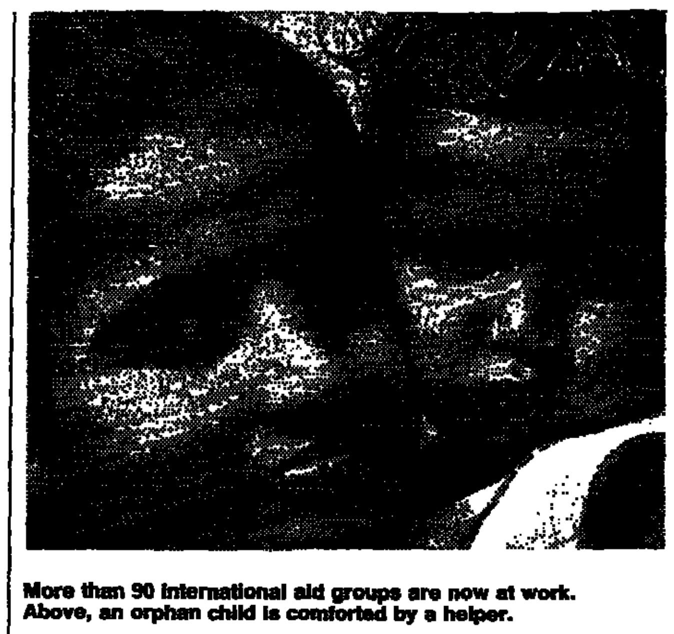
Irrigation has also led to a lowering of the water table in certain regions, although donor officials say that whilst the land becomes less attractive for rice, it will become more suitable for other crops such as vegetables.

An increase in food production has not, however, been reflected in a burgeoning food budget deficit which reached $255m in 1990, and was budgeted at $310m in 1991.

In part the increase was due to the former government of President Ershad importing rice at $40-$140 per tonne above the world market price. But donors are also pressing the government to reduce its emergency rice stocks from 1m tonnes to about 800,000, and not to support the floor price in the domestic market through intervention buying.

The agricultural successes of the past decade have been built upon the reduced government involvement, in particular from the key sectors of small scale irrigation and the fertiliser trade. The government is now being asked to restrict its role in seed distribution and donors will be looking further to extend the private sector's role in agriculture as a means of increasing and diversifying production.

William Keeling



More than 90 international aid groups are now at work. Above, an orphan child is comforted by a helper.

A schoolchild near Dhaka: an increasing number of aid groups working among children receive foreign funding.

Aid donors face mounting frustration over delays

Slow rate of project approval

THE NATURAL disasters that overwhelmed Bangladesh in the past four years have attracted the attention and sympathy of the world at large. The increased flow of aid, however, and the desire of so many organisations to assist in the development of the country, has brought its own problems.

An ill-equipped government bureaucracy has become swamped by the demands of multi- and bi-lateral donors, as well as a multitude of non-governmental organisations (NGOs).

The new government of Mrs Khaleda Zia has been slow to adjust to the demands of office and whilst aid in record quantities has been pledged, its disbursement has slowed.

In the first quarter of the current financial year, spending under the Annual Development Programme (ADP) – with a budget in the 1992 fiscal year of Taka 75bn ($1.9bn) – has been just half of the equivalent period of last year. There is now more than $5bn of aid accumulated in the pipeline, or sufficient for over two years at the current rate of disbursal.

The ADP is almost entirely donor-funded, but projects depend upon government approval and the release of a small amount of local counterpart funds.

The donors are becoming increasingly concerned at the slow rate of project approval but government officials protest the blame should be shared – "the trouble with donor-countries," says Mr Saifur Rahman, minister of finance,"is that they do not understand that they hold up projects with their conditionalities".

Donors often insist that programmes cannot proceed without the government fulfilling certain criteria, usually a supply of statistical data and a study on how projects can be integrated into existing infrastructure in terms of inputs and personnel.

This has slowed the pace of government approvals. One donor official noted a UN Development Programme project "which had been agreed in principle with the government. It was envisaged as an urgent and important project. But it took seven years to sign the agreement."

There are also many deficient aspects of donor operations. Too often bi-lateral donors have demanded that financial assistance be tied to the importation of goods from their own countries, although there is now a trend against tied-aid.

There has also been a reluctance of multi- and bi-lateral donors to channel their funds through NGOs which are usually more efficient operators at the grassroot level.

More importantly, once aid is commited, donors expect the money to be spent. Many donor officials admit that their personal achievement is judged more on the quantity of aid they can disburse than on its quality. And as the flow of aid exceeds the ability of the country to absorb it, so the quality of aid has tended to deteriorate. An example of a poor quality project has been the construction of large-scale irrigation schemes where consultation with local communities has been lacking.

As the representative of a multi-lateral organisation explains: "Designs were not worked around how the community wished to use the water. Villagers broke down irrigation walls so they could direct the water to where they wanted it."

In the past 20 years, Bangladesh has received more than $29bn in foreign aid; donors and local politicans alike concede that much of it has been ill-spent and, in some instances, simply siphoned off for individual benefit.

As a result, the working relationship between the government and donors has often been strained. As a western diplomat notes: "There is still a feeling that if a government ministry is good enough to provide a counterpart officer to assist a project, they are doing you a favour. It's true that the ADP is almost entirely donor-funded, but it should not be donor-driven."

There has been a move recently to enhance the dialogue between the government and donor organisations, particularly with the operation of NGOs in the country.

Last year, the Bureau of NGO Affairs was created to coordinate NGO activities. Funded by government, and seconded to the Office of the Prime Minister, the Bureau is intended to streamline project approvals and to safeguard against project duplication.

There are 92 international NGOs (such as Oxfam, Save the Children and Care) working in the country, plus over 450 national NGOs which receive foreign funding. In addition, there are a further 14,000 locally-funded NGOs.

All international and foreign-funded NGOs are required to register with the bureau. NGOs pass their proposals to the bureau for approval, whereas before they had to approach each of the relevant ministries. The latter are still consulted by the bureau but have to reply within a statutory 21 days.

Bureau officials say they receive ministry responses in 30 per cent of cases. The Bureau itself is obliged to grant or withold approval within 60 days of the application being lodged.

In the 1991 financial year, the bureau approved projects totalling $283m, not including emergency cyclone relief of a further $27m.

For the multi- and bi-lateral donors, their relationship with the government will be tempered by their recently promoted policy to support democratic and accountable government. Whilst they may be frustrated by bureaucratic inertia, donor officials will be aware that their criticism or praise of the government's development efforts will directly affect political stability. Development and politics will become increasingly intertwined.

William Keeling

University courses disrupted

Moves to curb student violence

FOLLOWING student violence, it now takes nearly three years longer than normal for a student in Bangladesh to graduate from university. Dhaka University, for example, is now holding final examinations for the academic year of 1988.

This loss of valuable academic years is the result of widespread campus violence since 1982 – at Dhaka University, 17 students have died in gun fights since the early 1980s as political confrontation has turned to armed conflict. More recently, student activists, backed by leading political parties, fought the supporters of ousted President Ershad on campus.

The worst violence broke out in October when four people, including three students, were killed during three days of gun battles at Dhaka University between supporters of the ruling Bangladesh Nationalist Party (BNP) and the opposition Awami League.

Both parties have accused each other of patronising armed terrorists in the educational institutions. The campus situation has deteriorated alarmingly since March when the BNP took power. It is widely believed that the Awami League was using its students' wing to destabilise the government of Mrs Khaleda Zia. Awami League, however, denies the allegation.

Thus, democracy in Bangladesh is facing a crucial test on campus. The nine-month-old government of Mrs Zia came under fire from all quarters for the failure to curb the rising violence.

In the past, the main political parties used the students to help gain control in national politics. Students have been in the vanguard of political movements, starting with the 1952 "language movement" in then-East Pakistan.

Students spearheaded moves against martial law in the 1960s and played a significant role in the liberation war of 1971.

Students were again in the forefront of agitation against the President Ershad last winter. The Awami League believes that the strong students' wing of the BNP brought Mrs Zia to power and hence they are trying to gain control over the student community.

Classes were suspended following violence; Dhaka University, with 28,000 students, remained closed for more than three months. The country's second largest university, in Chittagong, has had very few classes in the last nine months.

Sessions were suspended in medical colleges and the engineering university for weeks on end due to armed clashes between the rival student groups.

A Dhaka University official says that students have used revolvers, rifles, even machine guns, as well as home-made weapons in campus battles. He declines to reveal the names of armed terrorists on campus; teachers also claim that know some terrorists' names, but will not divulge them for personal safety reasons.

A ruling party official expressed surprise at the way the police remained remained "silent spectators" during recent conflicts. Police claim they had limited operational freedom on campus, but a senior university official says that the police have now been given freedom to enter any place on the campus to stamp out terrorism.

Political parties accuse each other of supporting terrorists in the educational institutions

Mrs Zia recently convened a meeting of all political parties and adopted a seven-point declaration pledging to end campus terrorism. The declaration pledged total support to all actions taken against the illegal arms' holders and terrorists. Within hours of the declaration, there were violent protests on the campus with pro-Awami League student activists setting vehicles on fire. Since then, an uneasy calm prevails.

It seems unlikely that the two main political parties will totally disown the armed cadres of students that support their particular views. Political observers say that campus violence will continue until the political parties build up their own organisational strengths among the populace and thus reduce their dependence on students for narrow political gains.

Reazuddin Ahmed

Mill workers face redundancy as 'golden fibre' sales fall

Crisis year for jute farmers

THE jute sector had a "good" Gulf war with jute cloth providing the material for sandbags. But in all other respects, the year has been one of permanent crisis for jute with farmers unable to sell their crop and mill-workers facing redundancy.

Jute is Bangladesh's largest export crop and, known as the "golden fibre," has primarily been used for making packaging materials. With the onset of plastic fibres, however, jute has struggled to remain competitive and the sector has been in progressive decline.

In the 1960s, Bangladesh was exporting 700,000 tonnes of jute and jute goods; this year it will be fortunate to break 300,000 tonnes. The sector is still a critical foreign exchange earner.

As a result, successive governments have been willing to subsidise the 34 private and 38 state-owned mills which together employ over 150,000 people.

Donors say that the outstanding debt of the jute mills to the public sector is about $900m, a figure disputed by government.

Industry officials say that preliminary figures for the 1991 financial year show an operating loss by public mills of $63m, and a private sector loss of $23m.

With the mills operating at less than 50 per cent capacity, and the national budget no longer able to bear the losses, donors are demanding that the sector be restructured.

The government have declared their intention to privatise the state-owned mills, although no potential buyers have been announced. As a precursor to any sale, the immense liabilities of the mills would have to be reduced and up to 40 per cent of the workforce retrenched.

Even then, there may be little choice but to close many mills. As one western diplomat explained, "The jute mill sector is effectively dead, but no-one has bothered to remove the plug from the life-support system."

Most private sector mills are in the same situation as their public sector counterparts. Privatised in 1982 (after the ill-fated nationalisation policy of a decade before), the mills are similarly over-manned and burdened by debt.

The government of former President Ershad, unwilling to accept widespread redundancies, intervened in 1984 when some private sector mills attempted to trim their workforce. As Mr Syed Ali, chairman of the Bangladesh Jute Mills Association which represents the private sector, explained: "We have had to dance to the tune of the public sector."

Mr A.Hannan Shah, the minister of jute, recognises the government must take "hard and painful decisions. Unless we reduce the number of operating looms and the labour force, the whole industry may come to a standstill in the near future".

At the same time, Mr Hannan Shah admits:"There is hardly any chance to get an alternative job, so these people would be jobless. Government is hesitant about major retrenchment."

Indeed, so concerned is government about the political implications of retrenchment that little headway has been made to tackle the sector.

The minimum export price for jute manufactures was withdrawn early in the year but re-instated in September. Government officials say they had no choice but to re-instate the minimum price after exporters began to under-invoice consignments. Mr Hannan Shah says over a two-month period, one trader alone swindled the government of over $7m.

Government policy, however, has been similarly inconsistent in other areas. A 20 per cent subsidy on the export of jute manufactures is still in place, although no payments have been made since July. Government officials have not confirmed their intention to withdraw the subsidy and mill owners still expect the payment to be made.

The government's difficulties have been compounded by a crisis in the banking sector to which most mills and jute traders are indebted. The government's decision in April to publish a list of major defaulters, and to bar loans being made to many companies, has made the banks hesitant lenders.

With uncertainty over the government's policy towards the jute sector, traders and millers have found banks withdrawing their financial support.

As a result, public and private sector purchases of jute from farmers has fallen by 50 per cent this year. With one in four Bangladeshis partially dependent on jute, this has significantly reduced purchasing power within the economy and hurt the poorest section of the population.

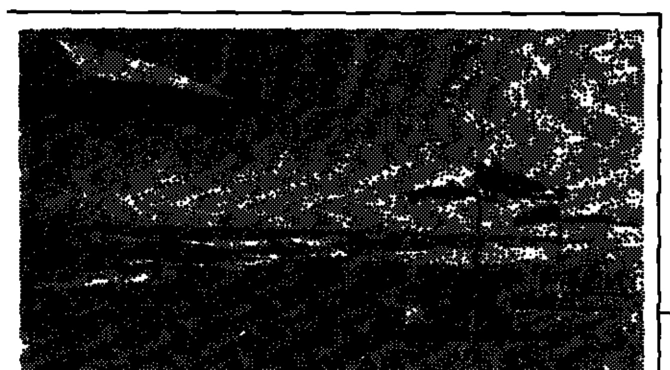
Mr Hannan Shah refutes the criticism that government has been indecisive and says that nearly 9,000 mill workers have already been entrenched. He says that further retrenchment is dependent upon a World Bank finance package and that he will retrench the remaining excess labour force over a two year period from the date finance is received.

Jute is Bangladesh's largest export crop, but many mills are operating at less than 50 per cent capacity and now face closure

He also remains optimistic about the long-term future of the jute sector, pointing out the environment-friendly qualities of the product, and its potential as pulp for paper-manufacturing with a 5,000 tonne a year pilot project out for tender.

The danger is that jute's long-term potential will be undermined by the short-term crisis. The mill-workers have already staged a violent one-day strike, and a three-day strike is planned for December 22. The jute sector is likely to test the government's resolve to the full.

William Keeling



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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♣) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 10H Tel: 071 - 379 - 0444.

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Sovereign Unit Tst Mngrs Ltd (1000)F
12 Christchurch Rd, Bournemouth 0202 298422

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Cash	1	49.90	49.90xd	50.40	10.6	45286
Cntrl'd Prfmnce	5¼	48.12	48.40	51.63	9.34	46075
Ethical	5¼	46.68	47.65	50.69	5.08	46098
European Growth	5¼	44.06	44.21	47.16	3.3	46171
Income	5¼	44.54	45.02	48.02	8.05	41394
Intl Growth	5¼	60.63	60.73	64.78	3.47	41395
Managed	5¼	54.85	55.19	58.87	4.81	41396
UK Growth	5¼	48.30	48.93	52.19	6.04	41397

Standard Chartered Equitor (1200)F
69 Old Broad Street, EC2M 1QS 071-280 6521

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Mngd Exempt Acc	3	185.8	188.0	195.8	3.14	42499
Do Income	3	177.3	179.5	186.9	3.14	41321

Standard Life Tst Mgmt Ltd (0629)H
3 George St, Edinburgh EH2 2XZ 0800 393777

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Managed Acc	5¼	34.04	34.04	36.17	2.65	41398
UK Equity Gth Acc	5¼	46.29	47.15	50.10	2.27	41399
UK Eq High Inc Inc	5¼	28.04	28.75	30.55	6.88	41400
UK Eq High Inc Acc	5¼	31.53	32.32	34.35	6.88	46962
UK Equity Gen Acc	5¼	43.78	44.50	47.29	3.76	41401
UK Equity Gen Inc	5¼	34.25	34.83	37.01	3.76	41402
UK Larger Cos Acc F	7½	286.3	290.2	314.9	1.93	41403
UK Larger Cos Inc F	7½	230.5	233.7	253.6	4.93	41404
Gilt & Fxd Int Inc	5¼	27.80	27.87	29.48	7.96	41405
O'vas Larg Cos Acc F	7½	199.2	203.2	220.5	2.21	41406
Nth American Acc	5¼	32.80	32.98	35.05	0.80	41407
Far East Acc F	5¼	38.26	39.23	41.69	0.16	41408
European Acc	5¼	31.57	33.15	35.23	1.77	41409

Stewart Ivory Unit Tst Mgrs Ltd (1200)H
45 Charlotte Sq, Edinburgh 031-226 3271

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American ♥	5	268.8	268.8	287.8	0.81	41410
(Accum Units) ♥	5	316.4	316.4	338.7	0.81	41411
British	5	790.6	800.6	847.0	6.12	41416
(Accum Units)	5	1299.0	1315.4	1391.6	6.12	41417
European	5	306.3	306.3	326.2	1.56	41418
(Accum Units)	5	332.0	332.0	353.6	1.56	41419
Japan	5	108.0	108.0	115.0	–	41420
(Accum Units)	5	108.9	108.9	115.9	–	41421
New Pacific	5	163.1	163.1	174.0	1.99	46365
(Accum Units)	5	167.5	167.5	178.7	1.99	47954
PEP Dec 11	5	139.1	140.5	148.7	3.78	47598
Mngd Equity	5	118.8	120.1	127.1	3.58	47586
Mngd Equity Acc	5	126.0	127.4	134.9	3.58	48556
Mngd Cash	5	96.85	96.85	99.96	10.25	47585
(Accum Units)	5	117.1	117.1	120.9	10.25	48267
Majority Stlg	1	100.89	100.89	101.90	10.85	42703
Majority Stlg Acc	1	107.85	107.85	108.93	10.85	46489

Storebrand Intl Inv Mngrs Ltd (1200)F
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex

	Bid Price	Offer Price	Yield Gross	City-line
Funds in Court*				
Capital Dec 12	467.53	470.98	3.00	40505
Gross Dec 12	174.61	176.02	11.08	40506
High Yield Dec 12	273.64	275.83	7.98	40507

* Restricted to monies under Court control

Henderson Unit Trust Management Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Pensions Mngd	50.62	51.71	4.27	40676

INVESCO MIM Management Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Exempt Funds				
Intl Mngd P'Follo	1124.0	1213.0	–	46964
Mngd Pens (Acc)	63.6	67.8	–	41007

Lazard Brothers & Co. Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Property Sept 5	£2440.0	2600.0	6.00	40777
Inc Gth Prp Apr 16	£1375.0	1460.0	7.20	40778

Lazard Investors Ltd ‡‡

	Bid Price	Offer Price	Yield Gross	City-line
Exempt Funds				
Small Co's Dec 11	£3015.7	3983.5	4.10	40766
European Dec 11	£522.5	528	2.15	40776
American Dec 11	£325.9	329.1	2.47	40773
Japan Dec 11	£462.6	467.8	1.39	40774
Pacific Dec 11	£130.1	135.6	2.07	40775
W Midlands Sep 30	£136.50	152.30	2.48	40771

Local Authorities Mutual Invest. Tst.*
2 Fore Street, London EC2Y 5AQ 071-588 1815

	Bid Price	Offer Price	Yield Gross	City-line
Property Nov 30	193.55	197.40	7.94	40825
Equity Nov 30	834.90	846.60	4.13	40826

* Available only to Local Authorities

M & G Securities Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Charibond Dec 12	103.46xd		10.43	40883
(Accum Units)	610.31		10.43	40884
NAACIF Dec 10	40.09xd		9.69	46917

Morgan Grenfell Investment Funds Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Exempt Funds				
UK Equity † Dec 10	119.0	128.0	2.12	46925
UK Small Co † Dec 10	519.2	569.8	3.51	46926
Fixed Interest † Dec 10	108.7	114.3	8.75	46920
US Small Co Dec 10	153.6	164.3	0.00	46927
Managed Dec 10	103.8	111.2	3.55	46924
Intl Bond Dec 10	117.7	124.0	10.34	47790
Japan Dec 10	68.50	73.30	0.40	47877
European Dec 10	83.53	89.45	2.07	47876
Nth American Dec 10	104.1	112.2	1.44	47878

Murray Johnstone UT Mngmt

	Bid Price	Offer Price	Yield Gross	City-line
Murray Exempt Funds				
Amer Expt Dec 11	49.32	51.29	2.10	41064

Allied Dunbar Assurance Plc

INSURANCES

OTHER UK UNIT TRUSTS

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	Bid Price	Offer Price	Yield Gross	City-line
N & P Life Assurance Ltd				
6-7 Bedford Row, London, WC1R 4UJ 071-430 2548				
Life Managed Fd	105.2	110.7	–	41924
Pension Managed Fd	103.3	108.8	–	41926
Life Deposit Fd	111.2	117.1	–	41923
Pension Deposit Fd	118.1	124.3	–	41925

For National Fin see Target Life

	Bid Price	Offer Price	Yield Gross	City-line
National Mutual Life				
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422				
Managed	162.6	171.2	–	43141
UK Equity	167.5	176.4	–	43135
Overseas Equity	129.3	136.2	–	43136
Fixed Interest	162.2	170.8	–	43137
Property	129.2	136.0	–	43138
Index Linked	151.6	159.6	–	43139
Deposit	165.1	173.8	–	43140
With Profits (B)	135.0	142.1	–	44128
National Provident Institution				
48 Gracechurch St, London EC3P 3HH 071-623 4200				
Managed	343.5	361.6	–	43163
UK Equity	431.1	453.8	–	43164
Overseas Eq	323.7	340.8	–	43165
American	273.9	288.4	–	43166
Far East	348.6	367.0	–	43167
Property	193.9	204.2	–	43168
Fixed Int	274.5	289.0	–	43169
Indexed Gilt	161.1	169.6	–	43170
Deposit	188.6	198.6	–	43171
With Profit	105.6	111.2	–	44771
Pension Fund (Accum Units)				
Managed	497.8	524.0	–	43173
UK Equity	585.5	616.4	–	43175
Overseas Eq	553.0	582.2	–	43177
American	353.0	371.6	–	43179
Far East	571.5	601.6	–	43181
Property	248.1	261.2	–	43183
Fixed Int	342.6	360.7	–	43185
Indexed Gilt	175.7	185.0	–	43187
Deposit	267.8	281.9	–	43189

	Bid Price	Offer Price	Yield Gross	City-line
Finexco International Ltd				
PO Box 193, St Peter Port, Guernsey 0481 713100				
Intl $ Strategy Fd	$1.082	1.164	–	44987
Intl £ Strategy Fd	£1.241	1.335	–	44988
Intl DM Strategy	DM1.610	1.732	–	47980
$ Defensive Strategy Fd	$2.014	2.166	–	41662
$ Aggressive Strategy Fd	$1.926	2.071	–	41661
Underwritten by Providence Capital Intl.				
UK Property Bond		101.0	–	47373
Underwritten by Providence Capital Life Assurance				
Hansard International Ltd.				
PO 192, Bank Hill, Nth Quay, Douglas IoM 0624 672111				
£ Managed	£0.111	0.119	–	45212

	Bid Price	Offer Price	Yield Gross	City-line
Knight Williams & Company Ltd				
161 New Bond Street, London W1Y 0LA 071-408 1138				
KW Global Inc & Gth	121.2	127.5	–	44503
KW Principal Portfolio	104.5	110.0	–	44508
KW Cautious Portfolio	97.5	102.6	–	47251
KW British Portfolio	102.0	107.3	–	43664
KW Cautious British	101.9	107.2	–	43654
KW High Risk Portfolio	100.4	105.6	–	43657
KW Income Distribution	92.0	96.8	–	40461
KW International	99.5	104.7	–	43658
KW Investment Trust	102.4	107.7	–	40462
KW Albany	111.6	117.4	–	44506
KW Albany Gnt	95.2	100.2	–	44512
KW CM/Fidelity	119.2	125.5	–	44505
KW GRE	98.7	103.9	–	44502

Unit Name	Init Charge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-line
Lazard Fund Mngrs (Channel Islands) Ltd						
PO Box 275, St. Peter Port, Guernsey C.I 0481 710461						
Lazard Select Investment Trust Ltd						
Global Active	½	£9.520	9.520	9.704	1.00	47271
UK Active	½	£10.47	10.47	10.71	5.00	47272
UK Liquid Assets	½	£10.00	10.00	10.05	10.5	47273
UK Index	½	£10.86	10.86	11.32	4.3	47274
US Index	½	£12.54	12.54	13.01	2.8	47275
Japan Index	½	£6.318	6.318	6.508	0.2	47276
Europe Index	½	£10.76	10.76	11.16	3.2	47277
Lion World Fixed Income Fund						
Albert Hse, Sth Esplanade, St Peter Port 0481 713996						
Lion World		$99.882	99.882	100.041	–	[illegible]
Lloyds Intl Money Market Fund Ltd						

[illegible]

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OTHER OFFSHORE FUNDS

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Sterling strengthens on Lamont's stance

STERLING rose strongly at the end of last week after Mr Norman Lamont, chancellor of the exchequer, said that there will be no devaluation of sterling when it moves to the narrower 2¼ per cent ERM bands.

UK clearing bank base lending rate 10.5 per cent from September 4, 1991

This reassured institutional investors who feared the government might be tempted to lower the current central rate of DM2.95 to help boost Britain's competitiveness with the rest of Europe.

The immediate impact of Mr Lamont's comments has been positive for sterling. On Friday sterling closed higher at DM2.8780 as the market anticipated an eventual move up in the pound's floor to DM2.88 from DM2.83.

By ruling out devaluation, Mr Lamont will prevent the sort of speculative attacks on sterling which the lira used to suffer every Friday as dealers wondered whether the weekend would see an announcement of a move to narrow bands, accompanied by a devaluation.

The move to narrow bands around DM2.95 also makes further cuts in interest rates less likely. In the period before the move to narrow bands, Mr Lamont will be unlikely to do anything which risks undermining sterling.

But it may not be a smooth passage to narrow bands. Sterling has to find a way through any period of renewed dollar weakness.

There is also the prospect of higher European rates, with a rise in German rates still a possibility. There is also talk that French rates could rise, while the Netherlands raised a key rate on Friday.

Finally, the market should not forget that pre-election jitters could also dominate sterling.

£ IN NEW YORK

Dec.13	Close	Previous Close
£ Spot	1.8150-1.8165	1.8065-1.8075
1 month	0.90-0.88pm	0.89-0.87pm
3 months	2.67-2.64pm	2.67-2.64pm
12 months	9.60-9.50pm	9.75-9.65pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.13	Previous
8.30 am	91.0	90.8
9.00 am	91.0	90.9
10.00 am	91.0	90.9
11.00 am	91.0	90.9
Noon	91.1	90.9
1.00 pm	91.7	90.9
2.00 pm	91.7	90.9
3.00 pm	91.6	90.9
4.00 pm	91.5	91.0

OTHER CURRENCIES

Dec 13	£	$
Argentina	17948.7 - 17986.7	9900.00 - 9910.00
Australia	2.3525 - 2.3545	1.2970 - 1.2980
Brazil	1696.25 - 1698.40	935.60 - 935.750
Finland	7.7665 - 7.8070	4.2850 - 4.2900
Greece	325.400 - 330.600	179.800 - 182.650
Hong Kong	14.0985 - 14.1115	7.7720 - 7.7740
Iran	117.50*	65.75*
Korea(Sth)	1358.85 - 1380.75	752.10 - 761.10
Kuwait	0.51820 - 0.51890	0.28560 - 0.28590
Luxembourg	59.10 - 59.20	32.50 - 32.60
Malaysia	4.9785 - 4.9865	2.7480 - 2.7500
Mexico	5511.50 - 5521.25	3040.00 - 3042.00
N.Zealand	3.2560 - 3.2605	1.7890 - 1.7915
Saudi Ar	6.7590 - 6.8360	3.7490 - 3.7500
Singapore	3.0040 - 3.0110	1.6550 - 1.6570
S.Af (Cm)	5.0240 - 5.0365	2.7745 - 2.7760
S.Af (Fn)	5.7200 - 5.8120	3.1845 - 3.2360
Taiwan	46.70 - 46.80	25.70 - 25.75
U.A.E.	6.6195 - 6.6970	3.6715 - 3.6735

*Official rate. Floating rate £-2575.0 $-1420.0

CURRENCY MOVEMENTS

Dec 13	Bank of England Index	Morgan** Guaranty Changes %
Sterling	91.5	-20.7
U.S Dollar	62.4	-16.7
Canadian Dollar	104.3	+2.1
Austrian Schilling	110.3	+12.3
Belgian Franc	112.1	-1.5
Danish Krone	109.2	+3.4
D-Mark	119.3	+25.8
Swiss Franc	109.9	+18.2
Dutch Guilder	115.0	+16.7
French Franc	103.4	-12.7
Lira	99.0	-19.7
Yen	140.0	+74.3

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Dec.12

CURRENCY RATES

Dec 13	Bank § rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.773874	0.706969
U.S Dollar	4.50	1.40226	1.28350
Canadian $	7.52	1.60124	1.46563
Austrian Sch	7.50	15.5342	14.3624
Belgian Franc	8.00	45.5033	42.0251
Danish Krone	9.50	8.58954	7.93204
D-Mark	7.50	2.20800	2.04051
Dutch Guilder	8.00	2.48775	2.29914
French Franc	10¼	7.54241	6.97070
Italian Lira	11½	1667.86	1540.07
Japanese Yen	5.00	180.892	165.700
Norway Krone	8	8.69822	8.02189
Spanish Peseta	-	141.083	129.910
Swedish Krona	10.00	8.07351	7.45458
Swiss Franc	7.00	1.94634	1.80011
Greek Drach	19	N/A	233.828
Irish Punt	-	N/A	0.765219

§ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for Dec.12

CHICAGO

[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

Dec 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8055 - 1.8210	1.8165 - 1.8175	0.89-0.87cpm	5.81	2.66-2.63pm	5.82
Canada	2.0655 - 2.0800	2.0785 - 2.0795	0.60-0.52cpm	3.23	1.68-1.55pm	3.11
Netherlands	3.2180 - 3.2450	3.2350 - 3.2450	¼-¼cpm	0.69	¼-¼pm	0.69
Belgium	58.75 - 59.40	59.10 - 59.20	8-3cpm	1.12	16-9pm	0.85
Denmark	11.1085 - 11.2055	11.1825 - 11.1925	1¼-⅝orepm	1.01	2¼-2pm	0.85
Ireland	1.0730 - 1.0830	1.0795 - 1.0805	0.03-0.07pdis	-0.56	0.01-0.11dis	-0.22
Germany	2.8590 - 2.8835	2.8725 - 2.8775	¼-¼pfpm	0.78	⅝-¼pm	0.61
Portugal	253.15 - 256.00	255.00 - 256.00	37-84cdis	-2.84	126-201dis	-2.56
Spain	182.10 - 184.15	183.10 - 183.40	29-34cdis	-2.06	88-99dis	-2.04
Italy	2157.35 - 2178.50	2170.75 - 2171.75	3-4liredis	-1.93	8-10dis	-1.66
Norway	11.2350 - 11.3525	11.3425 - 11.3525	¼-¼oredis	-0.53	½-1¼dis	-0.31
France	9.7610 - 9.8485	9.8150 - 9.8250	¾-½cpm	0.69	1⅝-1¼pm	0.56
Sweden	10.4300 - 10.5140	10.4825 - 10.4925	3-3½oredis	-3.72	6½-7¼dis	-2.60
Japan	232.50 - 234.70	233.50 - 234.50	⅞-¾ypm	4.17	2⅝-2½pm	4.38
Austria	20.10 - 20.30	20.22 - 20.25	2¼-1¼gropm	1.00	6⅝-2½pm	0.90
Switzerland	2.5240 - 2.5470	2.5350 - 2.5450	⅝-½cpm	2.36	1⅞-1⅝pm	2.26
Ecu	1.4030 - 1.4145	1.4080 - 1.4090	0.02pm-0.02cdis	-	0.03pm-0.03dis	-

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.12-5.07cpm 12 Month 9.55-9.45cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Dec 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8055 - 1.8210	1.8165 - 1.8175	0.89-0.87cpm	5.81	2.66-2.63pm	5.82
Ireland†	1.6765 - 1.6875	1.6825 - 1.6835	0.75-0.70cpm	5.17	2.40-2.30pm	5.59
Canada	1.1405 - 1.1435	1.1415 - 1.1425	0.23-0.26cdis	-2.57	0.76-0.81dis	-2.75
Netherlands	1.7730 - 1.7925	1.7830 - 1.7840	0.75-0.78cdis	-5.15	2.31-2.36dis	-5.24
Belgium	32.45 - 32.75	32.50 - 32.60	12.70-14.20cdis	-4.96	39.00-44.00dis	-5.10
Denmark	6.1225 - 6.1810	6.1550 - 6.1600	2.30-2.70oredis	-4.87	7.40-8.10dis	-5.03
Germany	1.5735 - 1.5915	1.5820 - 1.5830	0.63-0.64pfdis	-4.82	1.97-1.99dis	-5.00
Portugal	140.45 - 141.15	140.50 - 140.60	100-120cdis	-9.39	290-320dis	-8.68
Spain	100.60 - 101.40	100.85 - 100.95	65-70cdis	-8.03	198-208dis	-8.05
Italy	1189.75 - 1201.40	1194.75 - 1195.25	7.50-8.00liredis	-7.78	22.20-23.20dis	-7.60
Norway	6.2000 - 6.2575	6.2425 - 6.2475	3.10-3.60oredis	-6.44	9.40-10.00dis	-6.21
France	5.3820 - 5.4360	5.4025 - 5.4075	2.33-2.38cdis	-5.23	7.26-7.36dis	-5.41
Sweden	5.7525 - 5.8105	5.7700 - 5.7750	5.70-5.90oredis	-12.06	14.15-14.45dis	-9.91
Japan	127.95 - 129.15	128.75 - 128.85	0.14-0.16ydis	-1.40	0.46-0.47dis	-1.44
Austria	11.1020 - 11.1950	11.1850 - 11.1900	4.25-4.70grodis	-4.80	13.20-14.50dis	-4.95
Switzerland	1.3920 - 1.4050	1.3980 - 1.3990	0.38-0.42cdis	-3.43	1.23-1.28dis	-3.59
Ecu	1.2820 - 1.2915	1.2885 - 1.2895	0.65-0.62cpm	5.91	1.94-1.87pm	5.91

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency

EXCHANGE CROSS RATES

Dec.13	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Ecu
£	1	1.817	2.875	234.0	9.820	2.540	3.240	2171	2.079	59.15	1.409
$	0.550	1	1.582	128.8	5.405	1.398	1.783	1195	1.144	32.55	0.775
DM	0.348	0.632	1	81.39	3.416	0.883	1.127	755.1	0.723	20.57	0.490
YEN	4.274	7.765	12.29	1000.	41.97	10.85	13.85	9278	8.885	252.8	6.021
F Fr.	1.018	1.850	2.928	238.3	10.	2.587	3.299	2211	2.117	60.23	1.435
S Fr.	0.394	0.715	1.132	92.13	3.866	1	1.276	854.7	0.819	23.29	0.555
N Fl.	0.309	0.561	0.887	72.22	3.031	0.784	1	670.1	0.642	18.26	0.435
Lira	0.461	0.837	1.324	107.8	4.523	1.170	1.492	1000.	0.958	27.25	0.649
C$	0.481	0.874	1.383	112.6	4.723	1.222	1.558	1044	1	28.45	0.678
B Fr.	1.691	3.072	4.861	395.6	16.60	4.294	5.478	3670	3.515	100.	2.382
Ecu	0.710	1.290	2.040	166.1	6.969	1.803	2.300	1541	1.476	41.98	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

Dec 13	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	10¾ - 10⅝	10¾ - 10⅝	10⅞ - 10⅝	10¾ - 10½	10½ - 10¼	10⅜ - 10⅛
US Dollar	4⅜ - 4⅛	4⅜ - 4⅛	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½
Can. Dollar	7⅝ - 7¼	7⅝ - 7¼	7¼ - 7	7¼ - 6⅞	7⅛ - 6⅞	7¼ - 6⅞
Dutch Guilder	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9⅝	9⅝ - 9⅝	9⅜ - 9¼
Swiss Franc	7⅞ - 7⅝	7⅞ - 7⅝	8⅜ - 8⅛	8⅜ - 8¼	8¼ - 8	8 - 7⅞
D-Mark	9 - 8⅞	9¼ - 9	9⅜ - 9¼	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½
French Franc	9¾ - 9⅝	9¾ - 9⅝	9⅞ - 9¾	9⅞ - 9¾	9⅞ - 9¾	9⅞ - 9¾
Italian Lira	12 - 10	12 - 11½	12½ - 12	12¼ - 11⅞	12¼ - 11⅞	12⅛ - 11⅞
Belgian Franc	9⅝ - 9¼	9⅝ - 9¼	9⅞ - 9⅝	9⅞ - 9⅝	9¾ - 9½	9⅝ - 9½
Yen	6⅞ - 6⅝	6⅞ - 6⅝	6⅜ - 6⅛	6⅛ - 6	5⅞ - 5¾	5⅞ - 5¾
Danish Krone	9¾ - 8⅞	9¼ - 9	9⅝ - 9⅜	9⅞ - 9⅝	9⅞ - 9⅝	9⅝ - 9¼
Asian $Sing	2⅛ - 2	2⅛ - 2	2⅝ - 2½	2¾ - 2⅝	3⅛ - 2⅞	3⅝ - 3½

Long term Eurodollars: two years 5⅛-5⅜ per cent; three years 5¾-5⅝ per cent; four years 6⅛-6¼ per cent; five years 6¾-6⅝ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.13) 3 months US dollars		6 months US Dollars	
bid 4⅝	offer 4¾	bid 4⅝	offer 4¾

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

[illegible]

LONDON MONEY RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON					
[illegible]					
3 Mth. Bank Bills	10⅛	-⅛	PARIS		
TOKYO			Intervention Rate	9¼	Unch'd
One month Bills	6⅜	Unch'd	One mth. Interbank	9⅞	-⅛
Three month Bills	5⅞	-⅛	Three month	9⅝	-⅛
BRUSSELS			MILAN		
One month	9⅞	+⅛	One month	13⅛	-⅛
Three month	9⅝	Unch'd	Three month	12½	-⅛
AMSTERDAM			DUBLIN		
One month	9.70	+0.15	One month	10⅝	Unch'd
Three month	9.61	+0.06	Three month	10⅞	Unch'd

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

Charterhouse Bank Limited
1 Paternoster Row, EC4M 7DH. 071-248 4000

£2,500-£19,999	9.25	6.94	9.65	-
£20,000-£49,999	9.50	7.13	9.92	-
£50,000-£99,999	9.75	7.31	10.20	-
£100,000+	10.00	7.50	10.47	-
$5,000-$49,999	3.00	2.25	3.04	-
$50,000-$99,999	3.50	2.63	3.56	-
$100,000-$199,999	3.75	2.81	3.82	-
$200,000+	4.00	3.00	4.07	-

Many other currencies are available - for rates please phone ext. 2168

Clydesdale Bank PLC
30 St Vincent Place, Glasgow G1 2HL 041 248 7070

£2,000-£24,999	8.25	6.19	8.51	-
£25,000-£99,999	9.00	6.75	9.31	-
£100,000+	9.50	7.13	9.84	-

Western Trust High Interest Cheque Acc
The Moneycentre, Plymouth PL1 1SE 0752 224141

£15,000+	10.00	7.50	10.38	-
£5,000-£14,999	9.75	7.31	10.11	-
£1,000-£4,999	9.50	7.13	9.84	-

Wimbledon & South West Finance PLC
114 Newgate St, London EC1 7AE 071-606 9485

High Int Cheque Acc	10.60	7.95	11.03	-

NOTES- Gross, Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

FINANCIAL TIMES STOCK INDICES

	Dec 13	Dec 12	Dec 11	Dec 10	Dec 9	Dec 6	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs.	87.38	87.05	86.97	86.81	86.65	86.70	87.94	82.17	127.4	49.18
Fixed Interest	97.39	97.12	97.00	96.76	96.67	96.70*	97.39	90.59	105.4	50.53
Ordinary	*1863.9*	*1848.6*	*1809.4*	*1819.7*	*1830.0*	*1802.8*	*2108.3*	*1606.3*	*2108.3*	*49.4*
Gold Mines	152.1	160.3	164.3	169.7	166.9	163.5	222.8	127.0	734.7	43.5
FT Act All-Share	1174.88	1164.10	1145.30	1150.47	1156.61	1148.49	1284.07	987.46	1284.07	61.92
FT-SE 100	2451.6	2423.3	2380.2	2392.0	2409.6	2388.7	2679.6	2054.8	2679.6	986.9
FT-SE Eurotrack 100	1051.10	1040.33	1034.07	1034.94	1039.46	1041.38	1165.54	900.45	1165.54	900.45
FT-SE Eurotrack 200	1106.13	1091.45	1082.86	1086.32	1086.51	1086.91	1198.60	938.62	1198.60	938.62

*Corrected.

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS - Cont.

[illegible]

Five to Fifteen Years

	Notes Price £	Wk % change	Amnt £m	Interest due		Last xd	City line
Treas 13¼pc 1997‡‡	113⅞	0.4	1,290	Jy22	Ja22	17.6	1302
Exch 10½pc 1997	103¼	0.5	3,389	Au21	Fe21	15.7	1253
Treas 8¾pc 1997‡‡	95⅝	0.6	3,680	Mr1	Se1	26.7	1341
Exch 15pc 1997	121⅞	0.5	830	Ap27	Oc27	28.9	1259
9¾pc 1998	100½xd	0.8	3,858	Jy19	Ja19	13.12	1279
Treas 6¾pc 1995-98‡‡	88⅞	0.7	1,000	Nv1	My1	28.9	1331

Undated

	Price £	Wk % change
Consols 4pc	41⅜	1.4
War Loan 3½pc‡‡	37⅞	1.5
Conv 3½pc '61 Aft	60⅞	0.7
Treas 3pc '66 Aft	38½xd	1.2
Consols 2½pc	28	1.5
Treas. 2½pc	25¾	1.5

BRITISH FUNDS - Cont.

Index - Linked

[illegible]

OTHER FIXED INTEREST

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — FRIDAY DECEMBER 13 1991 — THURSDAY DECEMBER 12 1991 — DOLLAR INDEX

[illegible]

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
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Constituent change with effect 16/12/91: Deletion: Maxwell Communications (U.K.).

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LONDON SHARE SERVICE

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING AEROSPACE

[illegible]

ENGINEERING GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HEALTH & HOUSEHOLD - Cont.

[illegible]

HOTELS & LEISURE

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MISCELLANEOUS - Cont.

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIAL MATERIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

Northgate Expl C$	45¾	−10.7	–	–	–	10.77	–
North West Expl A$	8		–	–	–	–	–
Oryx Gold $	123		–		–	–	3686
‡‡Ovoca Gold I£	10		–	–	–	–	1479
Plateau	14	−12.5	–	–	–	–	3487
■RTZ	508	4.6	19.5	1.7	Dec Jul	16.9	3880
♥Thorco Res	4⅞	−25.0	–	–	–	–	–
✣Vizcaya	2	−20.0	–	–	–	–	4169
♥Western & Pac C$	24	20.0	–	–	–	–	–
✣Young Grp	106		6.2	1.8	May Oct	2.9	5686

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ), and non-UK stocks which are quoted on SEAQ International
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✣ USM, not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- ‖ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. z Dividend includes a special payment: Cover does not apply to special payment. E Minimum tender price. F Dividend based on prospectus or other official estimates for 1990-91. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1991. K Dividend based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1991-92. N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1150 a year for each security shown, subject to the Editor's discretion

London Share Prices

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FT Share Service

The following changes have been made to the FT Share Information Service.

Additions:

Bristol Water Hldgs (Section Water)
Latin American Extra Yield (Other Financial)
Morgan Grenfell Extra Income (Trusts)
Do Warrants (Trusts)
Vortex Energy Systems Inc. (Engineering General)

Deletions:

Carbo (Miscellaneous)
Westerly (Conglomerates)
Whitegate Leisure Warrants (Leisure)

4:00 pm prices December 13

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	1991 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16⅞	9¼	AAR Corp	0.48	4.0	16	898	12⅛	11¾	12	+⅛
22⅞	14½	A L Labs A x	0.18	0.7	23	91	21½	21¼	21½	+⅛
55¾	40⅞	AMP Inc	1.44	2.7	21	976	53⅞	53¼	53⅜	+⅛
68⅝	44¼	AMR				120825	64⅛	62⅞	63⅞	+1⅛
2⅞	1	ARX			1	25	1⅛	d1	1⅛	
58	41⅛	ASA	3.00	6.3	13	279	48	47⅛	47¾	
61⅜	39¼	Abbott Lab	1.00	1.7	24	4797	60⅛	59⅝	59⅝	−⅛
14⅝	9⅞	Abitibi Pr	0.44	3.3	17	3	13¼	13¼	13¼	
11⅝	10⅞	ACM Gvt In x	1.26	11.4		435	11	10⅞	11	
9¾	8⅝	ACM GvOpp x	1.01	10.6		52	9⅝	9⅝	9⅝	−⅛
9½	8¼	ACM Gvt Sp x	1.01	11.1		303	9¼	9⅛	9⅛	
11	9⅞	ACM Gvt Se	1.26	11.8		490	10⅝	10½	10⅝	+⅛
9	7¾	ACM Man	1.09	12.3		441	8⅞	8¾	8⅞	+⅛
12⅞	11½	ACM Managd x	1.35	10.9		330	12⅜	12¼	12⅜	
7½	4⅞	Acme Cleve	0.40	6.5	13	10	6⅛	5⅞	6⅛	+⅛
6	3⅞	Acme Elect			3	7	4⅝	4½	4⅝	+⅛
40	22¾	Acuson				183374	28¾	28½	28¾	+½
20¼	14¼	Adams Expr	1.63	9.2	0	108	17⅞	17⅝	17¾	+⅛
20⅛	14	Adobe 12Pf	2.40	16.3		265	15	14½	14¾	
9¼	4¾	Adobe Res			5	11679	6¼	6⅛	6⅛	−⅛
38⅞	18	Ad Micro				187	u39⅝	39	39⅛	+¼
16¾	4⅜	Ad Micro P	3.00	19.0	78	1172	u16⅛	16¾	15⅞	
5⅛	2¼	Advest Grp	0.16	3.6	6	213	4⅜	4¼	4⅜	+⅛
49⅛	31⅞	Aetna Lf x	2.76	7.2	7	882	38⅞	38⅜	38½	−¾
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1991 High	1991 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
21⅝	11⅞	Safeway			12	386	17⅛	16¾	16¾	-⅛
4⅞	2⅝	SafewayWt8				270	3¾	3½	3⅝	
35⅞	26⅞	StJoePaper	0.20	0.7	38	101	29¼	28¾	28⅞	-½
34¼	26⅝	StJoeLAP	1.68	5.0	12	9	33¼	33	33¼	
74¼	57	St Paul's x	2.60	3.6	7	1084	68	67¼	67½	+¼
4¼	1½	Salant Crp			0	37	3⅝	3¼	3⅝	
69¾	45⅝	Sallie Mae x	1.00	1.6	18	1967	64⅝	63¼	64½	+⅛
14¼	10⅜	Salomon Br	1.61	12.5		714	12⅞	12⅝	12⅞	+¼
37	20¾	Salomoninc x	0.64	2.3	6	3217	28½	27¾	28⅜	+⅜
46¾	37⅛	SanDgo G&E x	2.60	6.4	12	258	43¾	43½	43½	-⅛
4⅞	2¾	SantaFeEDu	0.50	18.2	21	129	2¾	d2⅝	2¾	
10¾	8¼	SantaFeERx	0.16	1.8	20	1623	9	8⅞	8¾	-⅛
35¼	25	SantaFePac	2.70	8.0	10	75	34⅛	33⅝	33⅝	-⅞
12¼	6¼	SantaFeSth				885604	11⅜	11	11⅜	+⅛
52¾	29⅝	Sara Lee	1.00	2.0	17	3396	50¾	49⅝	49⅞	
⅛	0.06	Savin Corp			0	7036	⅛	d0.05	0.05	-0.02
7⅞	1½	Savin 0.80	0.80	40.2		21	1⅛	1⅛	1⅛	+⅛
41½	35½	Scana Corp x	2.62	6.4	12	469	41	40⅞	40⅞	-⅛
46¾	36	Scecorp x	2.72	5.8	12	6968	u46⅞	46⅝	46¾	
65⅝	40⅞	ScheringPl	1.32	2.1	21	3324	62⅝	61⅝	62¼	+⅝
74	50½	Sch'berger x	1.20	1.9	22	4750	63½	61⅛	63⅜	+2⅛
25½	7⅞	Schwab(C)	0.11	0.4	27	1419	24⅝	24¼	24½	+½
6⅞	3⅞	Schwitzer			11	98	5⅛	5	5⅛	+⅛
17⅞	11½	ScientAtln	0.16	1.0	162	442	15⅝	15⅛	15¼	+⅛
9⅝	6	Scotman x	0.10	1.3	12	184	7½	7⅜	7½	
46⅝	29½	ScottPaper	0.80	2.5	66	1512	32½	30¾	32½	+1⅞

- X - Y - Z -

1991 High	1991 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
66	35¼	Xerox x	3.00	4.6	62	4262	65¾	63⅝	65¼	+2⅜
51¼	43¾	Xerox4.125 x				3	50	50	51	
25¼	14⅛	Xtra 1.94				70	23½	23¼	23½	
29¾	14¾	Xtra Corp	0.72	2.6	13	85	27¾	27⅝	27¾	+¼
27⅞	21⅜	Yankee Egy x	1.60	6.2	12	12	26	25⅝	26	+¼
1½	⅝	Zapata			56	422	⅞	d½	⅞	+⅛
9⅜	5¼	ZenithElec			2	340	7	6⅞	7	+¼
18½	12	Zenith Nat x	1.00	7.1	117	60	14⅛	14⅛	14⅛	-⅛
6⅜	4½	Zenix Inc x	0.84	13.4		150	6⅛	6⅛	6⅛	+⅛
15⅛	10	Zero Corp	0.40	3.8	13	308	10½	10¼	10⅜	+¼
41⅜	29½	Zurn Ind x	0.88	2.8	12	239	31⅜	30⅞	31⅛	+⅜
13½	10¼	Zweig Fund	1.16	9.2		197	12¾	12⅝	12⅝	+⅛
10½	8½	Zweig Tot x	0.96	9.4		733	10¼	10⅛	10¼	+⅛

Price data supplied by Telekurs.

Owing to problems at Telekurs, some North American prices are temporarily being marked as xd early.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices December 13

NASDAQ NATIONAL MARKET

4:00 pm prices December 13

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MONDAY INTERVIEW

'Mr Fixit' prepares to bow out

John Wakeham, UK energy secretary, speaks to **Juliet Sychrava**

'You have to create a free market if you want one'

Britain may enjoy its position asthe EC's largest producer of primary fuels. But ask even fairly well-informed Britons about their country's energy policy, and the chances are they *will* answer with a shrug.

Does the government even have an *energy policy? The* energy secretary, Mr John Wakeham, intends to stand *down at the next* election, and if the Tories win they have promised to close down the department altogether. So the answer would seem to be no.

In that case, why should one take the trouble of calling on Mr Wakeham?

One reason might be to enjoy the fine view of Buckingham Palace's back garden from his office window in Victoria. Another might be to hear how much Britain's energy sector has changed under the Tories – even if the changes are still incomplete. Mr Wakeham has the articulacy bred of a long political career, which included the post of *chief whip* – *and* the tragedy of losing his wife and, nearly, his legs in the Brighton *bombing*.

He is an ardent Thatcher supporter. He helped organise her unsuccessful *leadership* campaign last year. When she first came to power, Britain's energy industry was still ruled by the archaic structures of the past, with state ownership, *price subsidies* and *monopolies*. Today, electricity has been privatised, British Coal *restructured, and the nuclear* industry subjected to new disciplines. A free market in energy *may still be years* away, but at least a start has been made.

The energy secretary says: "The thing I want to dispel is that we believe you can just *leave these things* to the free market. You can't. You have to *create* a free market if you want one."

If he had been a business executive, Mr Wakeham says, he would have had no illusions about free markets. "During privatisation, I frequently said to businessmen who came in here and told me what they really liked was competition: 'Well, you're the first businessman I've ever known who liked competition.' If I was in business I'd try to avoid it."

Creating a competitive market in electricity by taking over the seemingly jinxed privatisation of the Central Electricity Generating Board from his predecessor Cecil Parkinson, has probably been Mr Wakeham's biggest achievement in the job.

A pragmatist, dubbed "Mr Fixit" by the media, he was accused of neglecting long-term environmental and security issues in his haste to push through the flotation. Since then, the accusation most often levelled at his department is that it has no policy. "If you can have a department without a policy," *said the Scottish Nationalist* MP Mr Alex Salmond recently of its imminent demise, "I *suppose you can have a policy* without a department."

Asked what the UK's energy policy consists of, Mr Wakeham says it is "to ensure that the UK has adequate, diverse, secure supplies of energy in the form that people and businesses want at the lowest realistic prices". In practice, this means unleashing a greater measure of market forces, but within a regulatory framework to ensure that competition works and environmental targets are met – department or no department.

But *is* this framework adequate? The Commons energy committee, for instance, has criticised the department for failing to encourage energy saving where this is cheaper than building new power stations. Even there, Mr Wakeham's detractors *claim, his* department has never gone beyond *ad hoc* energy efficiency measures *such as advising* the public to switch the lights off.

He retorts: "The privatisation of electricity itself, with the competition in generation that *creates, is the biggest single step that anybody could take to encourage the efficient use of fossil fuels, because it* bears heavily down on the bottom line of the generators."

Mr Wakeham does not rule out using fiscal measures to control emissions from power generation. But he is not enthusiastic about European Commission proposals for a carbon tax to limit the greenhouse gas carbon dioxide. On Friday, EC environment and energy *ministers gave the* green light to bring forward energy tax legislation, and EC finance ministers will today have to agree in principle to it.

"We think it might have a role," says Mr Wakeham. "But I want to pursue all the other forms of reduction of carbon dioxide, *certainly* through energy efficiency, or better diversity of fuels – the things we are doing – because of the effect the carbon tax will have on the competitiveness of European industry."

Is he confident, then, that the market is making the right decisions about investment in generating plant – notably in the decision by generating companies to build 10 gigawatts of new gas-fired plant? "It's not for me to judge that, but I see no evidence that they are not making the right decisions," he says. The new stations, he says, will provide enough competition for the two big generators created at privatisation: National Power and PowerGen.

He has scant sympathy for the large industrial electricity consumers who have been berating the government for allowing the "duopoly" of National Power and PowerGen to set the electricity price too high for them to compete with subsidised European companies. "If that's not *asking for* a subsidy, I don't know what is," he says of their demands.

He has made his views on subsidised energy felt with the Commission. "Some of the monopolists don't like it. The vested interests in the energy field among many of the other countries of Europe are very deep and longstanding. The day when National Power and PowerGen are building power stations in France is a day I look forward to, but I don't think EDF (Electricité de France) is looking forward to it." The UK, he says, is "a long, long way" ahead of the rest of Europe.

Mr Wakeham claims to have received little credit for the extent to which he has freed the UK market. "Everyone says I'm the person who subsidises nuclear energy. I'm the one person who's come forward with proposals to eliminate it [the nuclear subsidy]."

By removing the coal subsidy in 1993, and the nuclear subsidy in 1998, he is, he says, forcing both industries to face up to market realities. But it is far from clear what Mr Wakeham thinks should happen to *these two industries if they* cannot stand on their own feet.

If nuclear's subsidy is removed, *will it go under?* "Yes, but I don't envisage that." He says he cannot see how the world can manage without it. And what of coal when the subsidy goes? "I *think the coal industry has a* real opportunity to establish itself as a competitive fuel, and *I believe it will end up with a* very significant share of the UK power generation market."

Will he, then, liberalise the UK gas market as well? The department has been criticised *over its sluggishness in allowing* Norwegian gas into the UK. Again, Mr Wakeham believes the UK is already ahead of Europe.

"Very simply, we are in *favour of creating a much* more open market in gas, and that means if you're going to have imports you have got to have exports. It won't help us if the effect of the imported gas is to slow up the development of the UKCS [UK Continental Shelf]... if we are going to be flooded with imports."

He has surprisingly mild feelings about British Gas's monopoly position in the domestic market. Competition in gas is a good thing, "but there is no point in liberalising or reducing the monopoly ... unless there is the competitive gas there to compete with." What does he think should happen?

"Well, it's very difficult to say what should happen when the Office of Fair Trading and British Gas are in discussion." Does he agree with the OFT report condemning the British Gas monopoly? "Yes, broadly speaking, I think they are right in wanting to see more competition in gas." But British Gas, he believes, should be allowed to negotiate on how that is achieved.

By privatising gas and electricity, and preparing coal and nuclear for a more testing future, he has, he implies, done his bit. But he is not even betting on, let alone planning for, the fuel of the future. "I think it's an open question."

So, with so many issues still to be settled, why abolish the department? Mr Wakeham provides a disappointingly flip answer: "One of the best reasons for wanting to wind up this department in my opinion is that there are some of the best officials in Whitehall who understand our markets. To have some of those plying their very considerable talents in some other areas would be an extremely good thing."

He pauses to consider a more compelling reason. "No, the *real, sensible reason that I'm* very happy to give is that 12 years ago when Mrs Thatcher *came to office 60 per cent of* the energy of this country was produced by public monopolies and *now you have something* like 90 per cent of the energy in the private sector."

PERSONAL FILE

1932 *Born in Godalming,* England. Educated at Charterhouse.
1974 *MP for Maldon & Rochford.*
1981: Jan-Sept Government *whip.*
1982 Minister of state, Treasury.
1983 *Chief whip.*
1987 Leader of the House of Commons.
1988 *Lord President of the* Council.
1989 Energy secretary.

A nation of Euro-sceptics

MICHAEL PROWSE on America

The US media dutifully covered the Maastrich Summit but the topic of *European unity generates little* passion this side of the Atlantic. As a news story, Maastrich was easily overshadowed by the William Kennedy Smith rape trial and the dismemberment of the Soviet Union.

President George Bush welcomed the accords on political and monetary union, arguing that a unified Europe would be both a force for world stability and a lucrative market for US exports. But he is renowed for his interest in foreign affairs. The New York Times enthusiastically described Maastrich as a "grand foundation on *which to build Europe's* future". But the rest of America seemed to be stifling *yawns*.

Consider the different priorities of the US and European business press. Last Thursday, the FT devoted much of the front page, both feature pages and five inside news pages to Maastrich. On the same day, the US edition of the Wall Street Journal carried nothing – doubtless an accurate reflection of its readers' tolerance for Euro-stories.

It may be a coincidence but all the Americans I meet seem either bored with Europe or Thatcherite opponents of integration. They are coming to terms with the single market but instinctively assume the UK is justified in fighting federalism, *a single currency and the Social Chapter.* They cannot understand why disparate regions of Europe are willing to cede monetary *sovereignty* or accept regulation from Brussels. They doubt the feasibility of a *United States of Europe* even as a long-term goal.

I find myself almost apologis*ing for believing in European* unity and for not caring a fig for the future of sterling, a *shaky currency for decades.* When I add that in most respects Britain can only gain *by becoming more like conti*nental Europe, I am regarded as mad. Few Americans appre*ciate that the UK has been eco*nomically overtaken even by once-poor Italy, or that its poli*cies in fields such as education,* training, health care, social welfare, town planning and pensions compare poorly with Europe's best. This is perhaps because they are nevertheless *still impressive* by US standards.

Perhaps these anglophiles *empathise with British* misgivings about European unity for sentimental reasons. They do not want to see the faithful ally absorbed into a Euro-monolith. Where, after all, were the Germans and French when Mr Bush sounded the trumpet in Kuwait? They also fail to grasp Britain's lack of strategic options.

Some of the scepticism, however, is more firmly based in first-hand experience of the drawbacks of a large federal state. A single monetary policy run from Washington can seem an unacceptably crude instrument when regional economies are out of kilter. The level of interest rates appropriate in deeply depressed New England, for example, is likely to be inflationary in the rest of the US. You can be sure that if *New England* possessed its own exchange rate, it would have devalued long ago.

More generally, the division of powers between Washington and the states has blurred *responsibility in many fields,* with unfortunate results. The states are responsible for pro*grammes that they cannot* afford (given their primitive tax bases) and do not like. If *California, for example,* were a separate nation, it would almost certainly have better *high schools and a more* cost-effective health care system.

Yet few Americans would pretend the political and economic costs of union outweigh the benefits. Nobody would *argue that* Vermont or Louisiana, say, would enjoy their current prosperity as separate nations. Income and wealth differentials among the states, moreover, have steadily narrowed despite the inflexibility of a single currency.

I suspect a deeper reason for scepticism about European union – or studied indifference – is a reluctance to contemplate the implications. The notion of a United States of Europe stretching from Dublin perhaps as far as Minsk is so troubling that it is just put out of mind. Japan is seen as an economic threat, but not as a political rival. In the 21st century, a truly united Europe – perhaps nearly double the size of the current European Community – would be capable of outgunning the US both economically and diplomatically.

A united Europe would decisively alter the balance of financial power. The European currency unit might well supplant the dollar as the currency of choice in international transactions. This would certainly be true if, as seems likely, a European central bank had greater political independence than the Federal Reserve. Yet the US has not even begun to think of the *implications of having to* finance trade deficits by borrowing in foreign currency.

The rise *of European influ*ence ought not to be surprising. America's political and economic *dominance in the* 20th century was made possible only by Europe's folly *in tearing itself apart in* two world wars. This bankrupted most of the countries twice, *left half of the continent in* the grip of communism for half a century and prompted a huge *outflow of scientific and engi*neering talent. Given the parallel crushing of Japan in 1945, a US *economy run by* chimpanzees would have prospered in the immediate post-war decades. Now the competition will really heat up.

Americans, however, seem *strangely incapable of grasping* the implications of Maastrich. Like Britain's head-in-the-sand *Euro-sceptics, they are blithely* unaware that a new chapter in world history has begun.

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Little local difficulties

JUSTINIAN

From a purely legal point of view, it is not immediately apparent why the UK government was so insistent upon the removal of the Social Chapter from the Maastricht treaty into a separate protocol agreed upon by the other 11 member states. After all, social policy has been a discrete obligation ever since the signing of the Rome treaty nearly 40 years ago. What is there in the Social Chapter protocol to frighten the odd man out?

Under Article 117 of the Rome treaty the member states agreed upon the need to promote improved working conditions and an approved standard of living for workers, "so as to make possible their harmonisation while the improvement is being imposed"? By the following article the European Commission was given the task of promoting close co-operation in the social field. The article enumerated employment, labour law and working conditions, vocational training, social security and the right of association and collective bargaining. The Commission was instructed to make studies, deliver opinions and arrange consultations. Significantly, the provisions were preparatory to legislation in the various fields of social policy.

Two additions – Articles 118A & B – were made under the Single European Act of 1986. Article 118A authorised the Council of Ministers to issue directives for implementing improvements in the working environment, "as regards health and safety of workers". *Article 118B* spurred the Commission on to "develop the dialogue between management *and labour at a European* level" which prospectively would lead to agreements for workers councils.

Then came Article 119 – "men and women should receive equal pay for equal work". This article has been the subject of much litigation, almost invariably dragging UK legislation into line with Community law. The UK government has been reluctant to resolve the difference in state pensionable ages for men and women, but that stance, supported by the English courts, is being eroded through decisions of the European Court. The English courts have approached the law, in the context of retirement and of retirement benefits, as if the control of public expenditure is a more important consideration than the uniform provision of sexual equality. Is it the fear of mounting costs that is holding back the government from developing aspects of European social policy?

The 11 countries at Maastricht committed themselves to "the promotion of employment, improved living and working conditions, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combatting of exclusion" – all worthy attainments to which any civilised country would ascribe, no doubt at some cost to its Treasury. The 11 went on to declare that action would be taken to "support and implement" governmental activities in a number of fields. The first – *improvement in the working* environment to protect workers' health and safety – is an echo of Article 118A. The second is "working conditions"; the third, "the information and consultation of workers" – also a harking back to Article 118B; the fourth, "the integration of persons excluded from the labour market", sounds as if it might prove a costly obligation.

The 11 will be able to operate through the institutions, procedures and mechanisms of the European Commission for the purpose of formulating and implementing policy, without, it would appear, the presence and assistance of the UK, although observer status would be accorded to UK officials.

The reality is that the twelve member states are locked into a European union, as much in the field of social policy as for economic policy. If the UK government were ever to reject the legislative outcrop of the 11's protocol on social policy, it would almost be bound to withdraw from the existing Articles, 117-119, and the Rome treaty, because those articles and the protocol ineluctably form a legal unity; and that is well-nigh unthinkable.

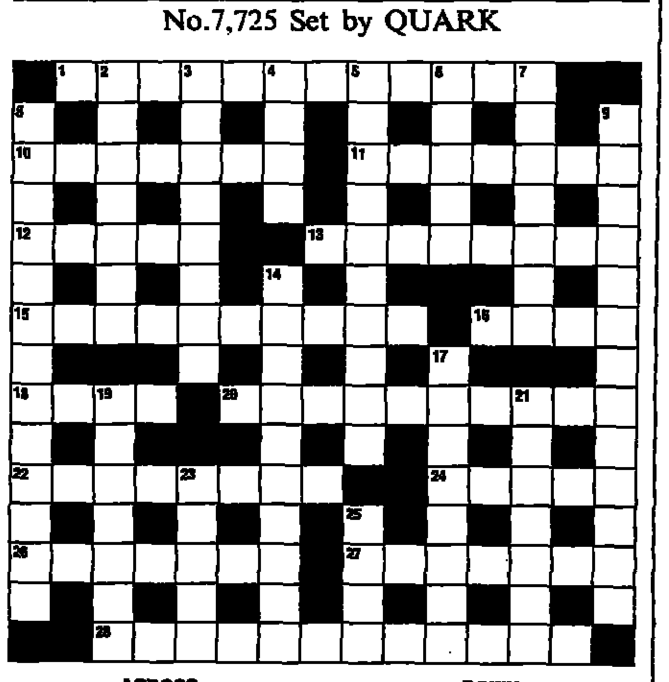
What then is the point of taking the UK out of the field of play and standing on the touchline, to cheer or jeer? The answer is obvious. There is a transparently clear short-term political advantage to the UK's stance. The British press in the wake of Maastricht hailed the prime minister's actions in the small Dutch town on the Dutch-Belgium-German border variously as a huge triumph or at the very least a diplomatic *success, while the newspapers* of the 11 countries described the UK as isolating itself from its partners, exhibiting the desirable thrust towards European union, federated or unfederal.

The cynic would predict – even lay a bet on it – that, come a Conservative *victory* at the polls next spring, the Maastricht protocol will after a decent interval of time have a twelfth signatory. Maybe Europeans will be tolerant towards the Anglo-Saxons using the legal device of a separate protocol to the Maastricht treaty, while a little local domestic affair across the Channel is disposed of by a temporarily unwilling partner.

Louis Blom-Cooper QC

CROSSWORD

No.7,725 Set by QUARK



ACROSS

1 *Country story?* (3,2,3,4)
10 Bible supporter? (7)
11 Town branch captures gold (7)
12 Sound fruit? You'll need to judge (5)
13 Hay meals prepared for an animal (8)
15 Having a dramatic effect (10)
16 Benefit without having leader's responsibility (4)
18 Final issue of two notes (4)
20 Cite goals I rattled in being conceited (10)
22 One to shout about established lineage (8)
24 Twin appearing in theatre (musicals, etc) (5)
26 Nut roll? (7)
27 Soap I'd examined initially turned out to be fatty (7)
28 Eg national church feature to engrave (12)

DOWN

2 Caught in duel – dashed for cover (7)
3 It could be served after breakages (8)
4 Insect comes up for bite (4)
5 Rose is representative (10)
6 Time for a shower? (5)
7 Novel I hand round the United Press – a French title (7)
8 Dream trip on Concorde? (6,2,5)
9 The way to go through Paris (6,7)
14 Sandy to crack nut? (10)
17 The swimmer has first to change (8)
19 Diplomacy is to include start of campaign manoeuvres (7)
21 House and grounds (7)
23 Poles in sight in drift (5)
25 Price of travel to the Far East (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 28.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 15.12.91: Pool purchase price £/MWh	Final Prices for Trading on 17.11.91: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.28	16.45	16.45
0100	28.09	18.50	20.16
0130	28.09	18.50	20.15
0200	28.09	18.50	20.15
0230	20.85	18.31	19.94
0300	20.60	18.31	19.94
0330	19.38	18.31	19.94
0400	17.45	16.30	16.30
0430	17.41	16.28	16.28
0500	17.11	16.26	16.26
0530	19.39	16.26	16.26
0600	17.32	16.26	16.26
0630	17.32	16.27	16.27
0700	17.32	16.28	16.28
0730	17.32	16.28	16.28
0800	17.17	16.27	16.27
0830	17.15	16.30	16.30
0900	17.31	16.30	16.30
0930	19.39	16.45	16.45
1000	19.39	18.71	20.39
1030	19.39	18.71	20.39
1100	20.92	18.71	20.38
1130	22.73	18.71	20.38
1200	30.68	20.38	22.10
1230	30.68	24.00	25.86
1300	30.68	24.00	25.85
1330	20.92	19.51	21.20
1400	19.73	18.71	20.37
1430	17.32	18.71	20.37
1500	17.32	16.45	16.45
1530	17.16	16.43	16.43
1600	17.32	16.45	16.45
1630	20.92	19.86	21.68
1700	22.56	19.51	21.19
1730	25.87	21.78	23.53
1800	25.87	24.00	25.83
1830	25.87	24.00	25.83
1900	21.16	22.00	23.77
1930	21.16	22.00	23.75
2000	20.81	22.00	23.73
2030	19.73	21.10	22.81
2100	19.73	19.98	21.66
2130	19.73	19.82	21.50
2200	19.73	18.80	20.56
2230	17.45	18.90	20.56
2300	17.32	16.45	16.45
2330	17.11	16.30	16.30
2400	16.94	16.30	16.30

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 16.12.91: Pool purchase price £/MWh	Final Prices for Trading on 18.11.91: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.15	16.46	16.46
0100	19.74	18.71	20.76
0130	19.74	18.90	20.96
0200	19.74	18.90	20.96
0230	20.27	18.90	20.94
0300	20.27	18.90	20.94
0330	17.50	16.48	16.48
0400	17.32	16.43	16.43
0430	17.32	16.30	16.30
0500	17.32	16.30	16.30
0530	17.46	16.44	16.44
0600	17.56	16.41	16.41
0630	17.72	16.47	16.47
0700	20.37	16.54	16.54
0730	20.40	20.00	22.11
0800	22.60	20.74	22.87
0830	25.51	22.04	24.21
0900	27.45	22.56	24.75
0930	31.82	22.87	25.06
1000	32.42	24.14	26.38
1030	31.60	24.16	26.42
1100	30.71	24.19	26.46
1130	30.46	27.69	30.28
1200	27.86	27.92	30.33
1230	26.59	27.85	30.27
1300	25.65	27.79	30.12
1330	24.30	22.75	24.90
1400	22.38	24.99	27.19
1430	19.74	26.25	28.46
1500	19.79	26.25	28.47
1530	23.04	17.29	17.29
1600	48.09	17.46	17.46
1630	136.18	39.48	46.20
1700	246.04	68.54	78.83
1730	258.01	74.63	84.95
1800	178.47	64.23	73.10
1830	65.35	37.92	42.09
1900	34.60	28.17	30.85
1930	26.47	27.33	29.57
2000	22.51	24.98	27.13
2030	20.93	20.74	22.60
2100	20.90	20.74	22.81
2130	20.37	20.01	22.06
2200	20.29	20.01	22.06
2230	20.26	18.55	21.60
2300	17.72	16.53	16.53
2330	17.46	16.44	16.44
2400	17.44	16.43	16.43

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

BASE LENDING RATES

	%		%		%
Adam & Company	10.5	Credit Lyonnais	10.5	McDonnell Douglas Bnk	10.5
Allied Trust Bank	10.5	Cyprus Popular Bk	10.5	Midland Bank	10.5
AIB Bank	10.5	Dunbar Bank PLC	10.5	Mount Banking	10.5
● Henry Ansbacher	10.5	Duncan Lawrie	10.5	NatWestminster	10.5
B & C Merchant Bank	10.5	Equatorial Bank plc	10.5	Northern Bank Ltd	10.5
Bank of Baroda	10.5	Exeter Bank Limited	11	Nykredit Mortgage Bank	11
Banco Bilbao Vizcaya	10.5	Financial & Gen. Bank	11	Provincial Bank PLC	14
Bank of Cyprus	10.5	First National Bank Plc.	14	Roxburghe Bank Ltd.	11.5
Bank of Ireland	10.5	● Robert Fleming & Co.	10.5	Royal Bk of Scotland	10.5
Bank of India	10.5	Robert Fraser & Ptnrs.	11	● Smith & Williamson Secs.	10.5
Bank of Scotland	10.5	Girobank	10.5	Standard Chartered	10.5
Banque Belge Ltd	10.5	● Guinness Mahon	10.5	TSB	10.5
Barclays Bank	10.5	● Hambros Bank	10.5	Unibank plc	10.5
Benchmark Bank	11	Hampshire Trust Plc	13.5	● United Bk of Kuwait	10.5
Brit Bk of Mid East	10.5	Heritable & Gen Inv Bnk.	10.5	Unity Trust Bank Plc	10.5
● Brown Shipley	10.5	● Hill Samuel	10.5	Western Trust	10.5
CL Bank Nederland	10.5	C. Hoare & Co.	10.5	Westpac Bank Corp.	10.5
Citibank NA	10.5	Hongkong & Shanghai	10.5	Whiteaway Laidlaw	10.5
City Merchants Bank	10.5	Julian Hodge Bank	10.5	Yorkshire Bank	10.5
Clydesdale Bank	10.5	● Leopold Joseph & Sons	10.5		
Co-operative Bank	10.5	Lloyds Bank	10.5		
Coutts & Co	10.5	Meghraj Bank Ltd	10.5		

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JAPAN INDUSTRIAL REVIEW

Monday December 16 1991

THE CLOUD of an economic slowdown that has hung over Japan this year has one silver lining: Japanese companies are finding it just a bit easier to hire new workers. They should enjoy this favourable turn of the market while they can, because it is certain to be only a brief respite.

For the past 20 years Japanese people have relentlessly increased production of almost everything imaginable except themselves. The birthrate has declined steadily since 1974. Next year school graduates entering the workforce will peak, and then decline 22 per cent by the turn of the century. The total number of Japanese in the workforce will begin to fall after 1996.

Already a labour squeeze has tightened around many companies, including big, reputable employers such as Toyota Motors, which cannot meet even reduced hiring targets for production workers or engineers. Small companies are hit much harder. Multi-billion dollar bankruptcies stemming from the fall of property prices have captured headlines, but the biggest cause of bankruptcies this year has been inability to hire enough workers.

The annual graduate recruitment season has advanced by months as companies scramble to win early commitments from students by offering trips to Japanese – and even overseas – resorts.

Japanese industry has before coped with temporary labour shortages and today's situation is superficially unextraordinary, coming, as it does, at the end of Japan's longest period of uninterrupted economic expansion since the Second World War. In 1973 the ratio of new jobs to applicants briefly surpassed 2, yet this was after seven years of 8 per cent economic growth and the ratio subsequently plunged.

This time around, only three years of 5½ per cent growth were needed to match the old record. And even though the ratio of jobs to applicants has come down marginally in recent months, as the economy slows, this time the labour shortage will not go away. Instead it can only grow steadily worse like a slowly tightening screw.

Ashley Ashwood

College students in a suburb of Tokyo: confidently waiting for offers from increasingly anxious employers

The vanishing workers

Japan is becoming acutely short of workers. More women and older people are being recruited. But a big increase in foreign labour is still taboo, reports Steven Butler

More enlightened employment of women and older workers in the labour force will help, but will not provide any fundamental solution, as the articles in this survey demonstrate. Immigrant labour could make a big difference, but only if the Japanese government adopts a radical change in policy.

The implications of the labour shortage for Japanese industry are profound, even though the full impact will not be felt for many years and is still under debate. That impact can be divided broadly into three areas: industry, labour management and the macro economy.

■ INDUSTRY: For companies making computers, robots, or software, the labour shortage could hardly be better news, at least so long as they are able to hire enough people to meet orders. Continuing high levels of industrial investment in Japan are these days aimed less at expanding capacity or improving technology than at saving labour.

This factor has helped sustain brisk industrial activity in the face of what otherwise would have been a much sharper slowdown in the economy, as the central bank has kept interest rates high to battle inflation.

For most companies in mainstream manufacturing industries such as automobiles or electronics, the shortage is a longterm squeeze with which they have been able so far to cope. Toyota and Nissan are both building assembly plants in Kyushu, where labour is relatively abundant, and they are lifting levels of automation.

And yet some industries are already hard hit. Trucking companies are now short by 100,000 drivers, compared with 750,000 behind the wheel today. Construction companies cannot hire enough skilled labour to staff their sites. Young Japanese simply no longer want to do these jobs.

The Industrial Bank of Japan (IBJ) has identified the industries hardest hit as: petroleum, paper and pulp, electronics and electrical machinery – especially software development, automobiles, shipbuilding, machinery, construction, transportation, shipping, hotels, and restaurants.

■ LABOUR RELATIONS: More subtle, but just as important, is the impact the labour shortage is already having on the management of Japanese companies. The balance of power between employees and management has been nudged firmly in the direction of the employees, with potentially far reaching implications for Japanese corporate behavior.

A central ingredient in nearly every theory about what made Japanese management work was the lifetime employment system. The lack of opportunities for job hopping in Japan, the argument ran, made employees extremely loyal to their companies. Personal futures could only be secure so long as an employer was stable and growing. As a result management was able to trust employees with greater responsibility, confident that employees would protect the interests of the company as a whole.

Yet now employees finally do have choices. The rate of job hopping has reached a new peak at around nine per cent a year, concentrated among younger employees. Much of the increase is accounted for by a rise in lateral mobility of professional and technical workers, many of whom are rewarded with a fat wage increase. Even though percentages remain small, it is now normal for big companies to take on mid-career employees.

According to Professor Yoshio Higuchi, of Keio University: "If the job separation rate gets higher then on-the-job-training does not work."

Professor Akira Ono, an economist at Hitotsubashi University, says: "Eventually the system of lifetime employment will be destroyed."

Professor Ono argues that Japan is moving toward a European-style longterm employment system. He does not see in these developments the demise of the Japanese corporate system so much as an opportunity to redress the imbalance in power between corporations and their employees, which in the past left employees powerless to resist demands to work long hours or move anywhere in Japan to man production lines or work in offices, often leaving family behind.

"The labour shortage has given workers a good opportunity to put an end to unreasonable practices," he adds.

This does not translate necessarily into a rise in trade union power. Japanese unions, organised by enterprise, are far weaker than their counterparts in the west. It is the market itself which is forcing employers to shorten working hours, make working conditions more pleasant, and to provide their employees with ever-improving housing and recreational facilities. If they fail to act, no one will want to work for them.

■ MACRO ECONOMY: "After 1995, the shortage of workers will reduce the growth rate of the economy," says Mr Sukehiro Itoh, an economist at IBJ.

Mr Itoh says that Japan's rate of economic growth for the entire decade is likely to be only about three per cent a year, compared with four per cent in the 1980s. In the next few years, growth will be slowed as the economy continues to adjust after the easy-money policies of the late 1980s, but after that the lack of workers will prove a persistent constraint.

This is, however, a controversial view. Professor Ono argues that among OECD countries there is no correlation between rates of economic growth and growth in the labour force.

He says: "I don't say the growth rate will not be affected at all by the labour shortage. But of greater importance is improvement in productivity."

If Japanese companies can maintain high levels of investment and keep up the record of technical innovation, he argues, growth need not be affected.

Of even greater interest to Japan's trade partners is the impact of the labour shortage on the country's persistently high merchandise trade surplus. Many economists believe that big companies will be forced increasingly to turn overseas for the parts and components they now buy from smaller Japanese suppliers.

"If you look at the long term, the trade balance will be improved by outsourcing," says Mr Itoh.

Japanese companies have now come to the end of a wave of foreign direct manufacturing investment touched off by the rise of the yen after the Plaza Accord in 1985. Mr Itoh argues that in five or six years an even more powerful move overseas will begin picking up momentum. This will take place as Japan's population of retirees is growing rapidly, causing a decline in the rate of savings, and consequently, a drop in Japan's current account surplus.

The Bank of Japan is already battling against the inflationary pressures of the labour shortage. Although manufacturing wages have been stable, wage increases in the faster-growing services sector have proved stubbornly high. Service sector wage inflation has little direct impact on Japan's international competitiveness, but it complicates the task of achieving non-inflationary growth. As a result, the Bank of Japan may have difficulty bringing interest rates down anywhere near where they were in the last decade.

If the past is any guide, Japan as a nation will cope successfully with the range of pressures brought on by the labour shortage. Yet there will be winners and losers, and the shape of Japanese industry is certain to change as the country adjusts to having less and less of its most valuable resource – its own people.

IN THIS SURVEY

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Steven Butler analyses Japan's top problem

The empty cradles

THE NUMBERS tell a simple story. Japan's birth rate has fallen steadily since 1974.

If current trends continue the total population will peak in 2005. By 1996 the working population will begin to decline in size while the population of retirees grows rapidly.

Graduates from all levels of school entering the workforce will peak next year and then decline relentlessly.

In short, demography will put a steadily tightening squeeze on Japanese industry and the economy as a whole. The story of what that squeeze means is told in detail elsewhere in this survey. Here we look at the numbers.

Like most countries, Japan experienced a surge in the birth rate after the second world war that caused the average age of the population to drop.

But in Japan the trend was far more pronounced. In 1950, the per cent of population in Japan over 65 years old was just over five per cent, compared with over 10 per cent in the UK and about eight per cent in the US.

Japan's fertility rate, the average number of children born to a woman during fertile years, was 4.5 in 1947. It fell to 2.1 in the 1960s and reached 1.53 in 1990, well below the level needed to maintain population size.

Causes of the decline in fertility are familiar in all industrial societies – rising affluence and improved social security, the shift from agricultural to industrial employment, increased women's participation in the workforce, and the cramped living quarters for urban Japanese.

For decades, the young population provided a steadily rising pool of new entrants to the work force and has been one of Japan's persistent sources of strength. Indeed, the number of entrants to the work force, measured by graduates at all levels who finish education, continues to rise today.

The number of graduates increased from 1.09m in 1980 to 1.19m last year, according to statistics compiled by the Ministry of Education. Graduates will reach a peak next year at 1.23m and afterwards decline each year to 960,000 by the turn of the century.

Tomorrow's workers: secure in the saddle

That amounts to a 22 per cent drop in the number of potential entrants to the workforce in just eight years. The only consolation, perhaps, is that more of these will be university educated.

Today, Japan is enjoying the benefits of an extremely favourable population structure. Persons born during the post-war baby boom are still in the workforce, meaning there are relatively few retirees to support. On the other hand, those born in the second mini-surge in the birthrate during the 1960s are out of school and earning their own way.

As a result, Japan today enjoys the lowest dependency rate – the ratio of non-working to working population – of any OECD country. Japan's dependency rate is about 42 per cent, slightly lower than Germany's, but far below the bulk of OECD countries which are over 50 per cent. This is one reason why Japan enjoys such a high rate of savings, and is a big contributor to the current account surplus that has annoyed so many of its trading partners.

The tables will turn very quickly, however. Soon after the turn of the century, Japan's dependency rate will be in the middle of the pack of OECD countries, and will quickly take the lead, passing 60 per cent by the year 2020. Likewise, its ratio of elderly population will rise from a paltry five per cent in 1950 to 24 per cent in 2020, again the highest in the OECD. Britain is expected to be about 16 per cent. All of this means an irrevocably shrinking labour force – fewer Japanese to man store counters, drive buses and trucks, or to assemble automobiles.

For companies looking to hire today, the labour shortage already feels far more severe than these numbers would suggest. There are two reasons for this. First, a long period of economic expansion has inevitably tightened the labour market.

POPULATION

But second, and with far more serious longterm implications, the rapid structural transformation of the Japanese economy from agriculture and self-employed trades to industrial and service employment has come nearly to an end.

The proportion of the working population that are employees has risen from 46 per cent in 1956 to 77 per cent last year and is unlikely to rise again significantly. Although agriculture in theory could provide more employees, in practice the ratio of self-employed persons is likely to decline as a result of retirement. The percentage of agricultural workers over 55 is already above 50 per cent, and projected to rise to 64 per cent by the turn of the century. Some 47 per cent of agricutural workers are likely to be over 65.

Japanese women are often cited as an obvious vast untapped source of labour. While in many respects this may be true, because women do not have equal career opportunities, it is untrue from a macro-economic labour-supply perspective.

According to the OECD, 49.5 per cent of Japanese women participated in the labour force in 1988. This is higher than Germany's 42.2 per cent and lower than 54.9 per cent in the US. In other words, the labour force participation by Japanese women is not out of line with other developed countries.

The Japanese statistics slightly overstate the rate because, unlike other countries, they include women over 65, a group whose labour participation rates in Japan are significantly higher than the rest of the OECD.

The age structure of Japanese working women is the typical M shape, with women dropping out of the workforce during child rearing years and later rejoining. Japanese economists believe many of these women could be coaxed to back to work earlier if employers made working hours and other conditions more flexible.

Japanese companies are also hoping to attract back into the labour force workers who are formally retired, generally at 60. Yet they face two big obstacles. First, Japanese state social security benefits are proportionately reduced between the ages of 60 and 65 according to income.

Second, participation in the labour force by elderly Japanese is already extremely high by international standards. In 1988, 71.1 per cent of men between 60 and 64 were working, as against 54.3 per cent in the US (1987) and 25.7 per cent in France. Of Japanese men over 65 years old, 35.8 per cent are working, compared to 15.7 in the US and 7.9 per cent in the UK. It is hard to imagine these rates going up significantly.

The best near-term solution for many Japanese companies is to relocate factories to Kyushu in the south or Hokkaido in the north where labour is still relatively abundant. In fact, there are still more job seekers than job offers in these places. The offer to applicants ratio in Kyushu and Hokkaido is about 0.6, compared to 1.7 in central Japan.

Short of that, employers may renew efforts to pick off the droves of young people who wipe windshields at petrol stations or who bow and shout "IRASHAIMASE!" (welcome) upon entry to a store or bank. Japanese standards for customer service, one of the pleasures of the country, could be an early casualty of the labour supply crunch.

Factories call back the pensioners

Old but productive

CRAMMED COMMUTING trains, 15-minute lunches and long overtime working are not suitable for old age pensioners. Yet the rapid ageing of the Japanese population is forcing companies to rely increasingly on the older generation.

The country's ratio of elderly is expected to rise to the highest in the OECD nations. The government has been promoting the raising of the retirement age.

A recent survey by the labour ministry shows that this year, 58.1 per cent of 110 listed manufacturers had re-employed workers as opposed to 33.8 per cent in 1988.

However, despite the increase in re-employment, *elderly workers are not* regarded as a "serious" labour force, and are therefore no solution to shortage of labour.

Canon, the precision manufacturer, started its re-employment scheme for employees in 1982. The company offers three more years of full time work for employees retiring at 60. "Providing a job for those who *want to work is the* best welfare a company can give," says Mr Keijiro Yamazaki, Canon's personnel manager.

Employees reaching the age of 60 have three choices: to stay with Canon, work at an affiliate, or retire. Those who choose to stay on will receive 70 per cent of the salary before retirement. If they decide to stay with Canon, employees will be provided with jobs depending on positions immediately before retirement. A third of the 50 employees on the re-employment scheme, work as *janitors, and clerks*, while the rest have staff posts in offices and plants.

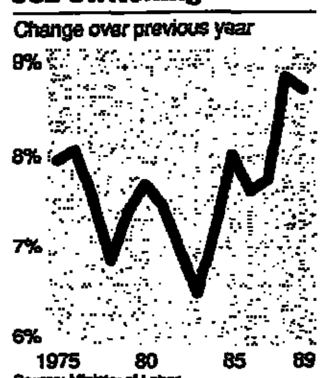
"There is some debate that efficiency of the work place is hampered, but most employees accept the re-hired workers as normal employees," says Mr Yamazaki.

Canon says that the next step for the re-employment scheme is to raise the retirement age to 63, and permit people to stay until 65 if they want. However, Mr Yamazaki stresses the programme is a form of "welfare" for employees and Canon does not intend to extend it to those who worked for other companies.

Mr Minoru Miyazaki, one of 50 people on Canon's re-hiring scheme, now works at the company's corporate history editorial office. He recently joined the editorial office after working for 37 years at the company's prototype testing centre as a specialist. "I joined the company when it was starting up, and feel its my responsibility to try and put Canon's historical data together," says Mr Miyazaki. He sometimes feels isolated, but generally enjoys the job. Some specialists re-employed on to the same research work, were unhappy with the lower salaries, however.

THE ELDERLY

Job switching



Source: Ministry of Labor

Senior citizen: in demand

While Canon sees its programme as welfare, others point out the major reason as necessity for labour. Automobile companies such as Toyota Motor and Nissan Motor have schemes only for workers on plant lines and labourers. Nippon Steel has also recently announced it would start a re-hiring programme to ease productivity pressures due to shorter working hours.

Nippon Steel says it had made the decision after comparing cost for automation and hiring cheaper labour. "We are doing this for the labour," stresses Mr Takeshi Sawada, a spokesman for Nippon Steel.

He adds that if Nippon Steel cannot reconcile its needs with those of the employee it might refuse to rehire. However, Nippon Steel does not expect many employees *to join the programme*. "People on the manufacturing lines are worn out by the time they are 60," says Mr Sawada. The case is similar at *Toyota and Nissan*. When Toyota launched its re-employment scheme in September this year, only 10 employees applied. Mr Yoichi Okazaki, professor at Nihon University, says that companies do not implement re-employment schemes because of the labour shortage problem. "Most companies are just trying to put on a good face. Elderly workers are not suited for labour intensive jobs," he adds.

Prof Okazaki says companies would rather moved plants overseas where cheap labour is abundant, or hire foreign labour. "Some companies go far as to say that even if a fine for not hiring old workers is implemented by the government, they would rather pay it than be forced to hire." According to the labour ministry, the ratio of job offers to applications falls drastically for elderly applicants. The number remains high for applicants between 45 to 54, but plunges to 0.38 for workers over 55.

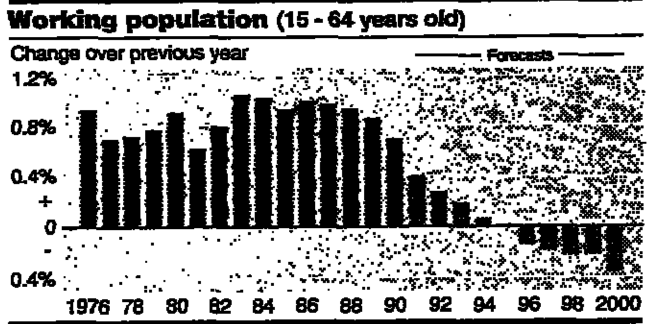
As a result, older workers seeking jobs end up in labour *intensive areas which face* acute labour shortages. Average ages of workers in construction, transportation and real estate are now over 40.

Mr Paul Summerville, economist at brokers Jardine Fleming, says that the ageing of such sectors will have severe effects on the efficiency of the Japanese economy. Prof Okazaki says that the outlook is not bright, considering the fast pace of the ageing population.

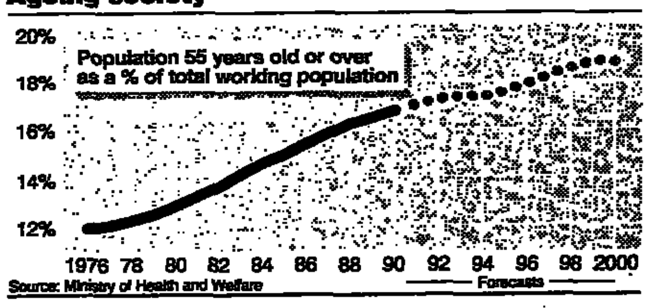
"Companies will be alright with their current personnel operations for another 10 years, but will have to start making adjustments." He adds that in the future, more companies will have to bear the burden by creating jobs for the elderly. Mr Miyazaki at Canon says that while it is important for companies to provide a workplace for the elderly, they should consider the programmes more than just welfare.

Emiko Terazono

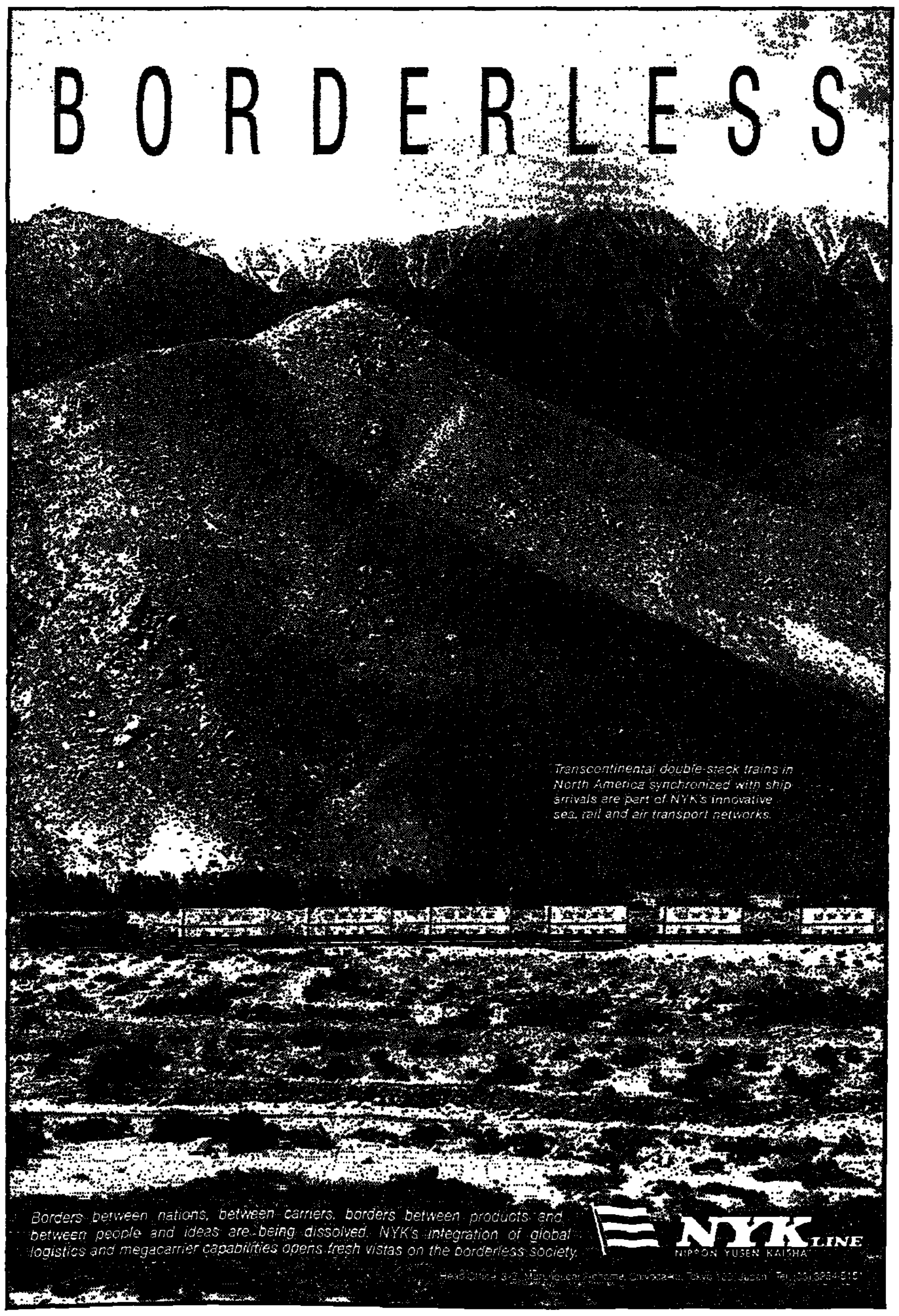
Working population (15 - 64 years old)

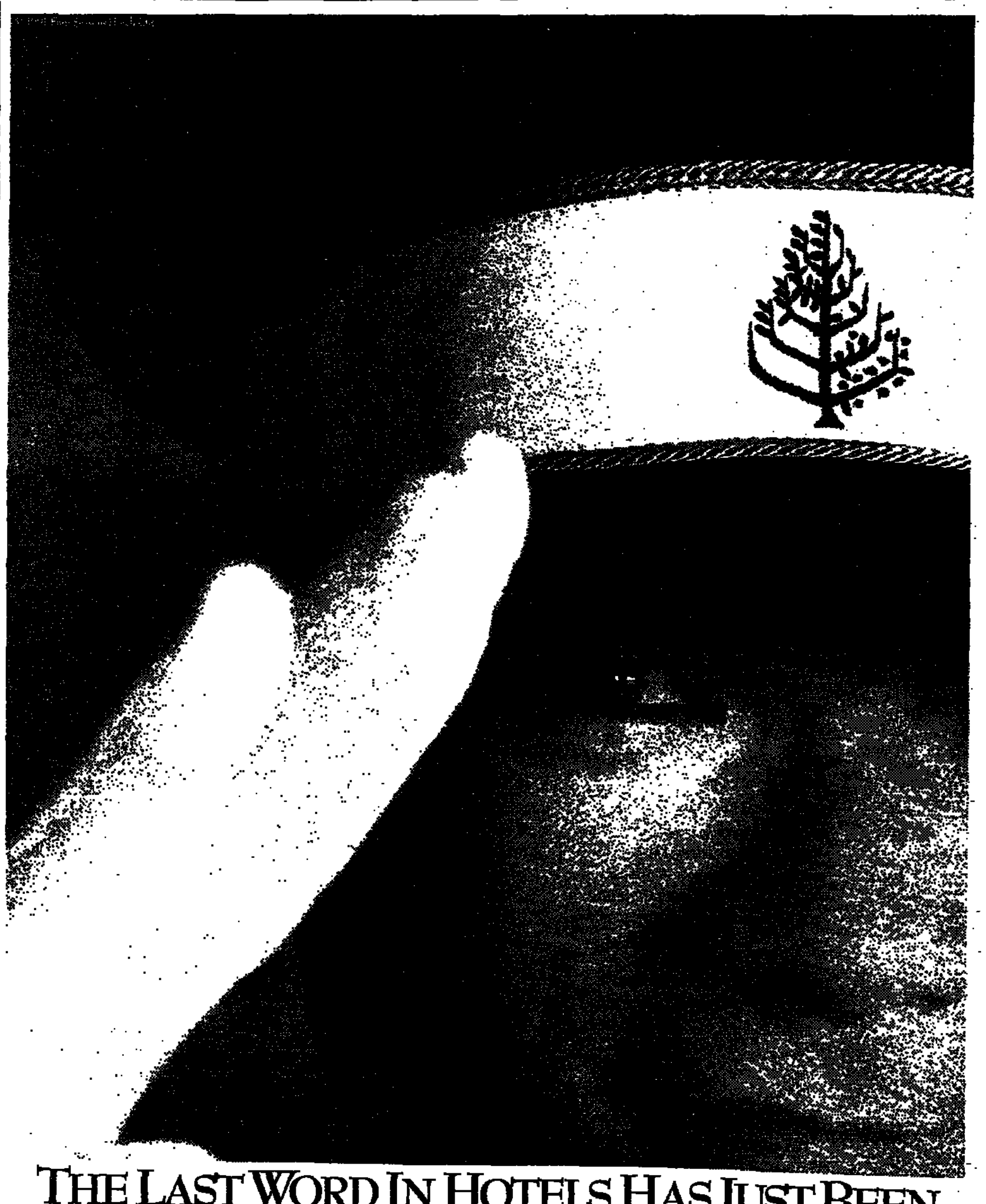


Ageing society



Source: Ministry of Health and Welfare





THE LAST WORD IN HOTELS HAS JUST BEEN TRANSLATED INTO JAPANESE.

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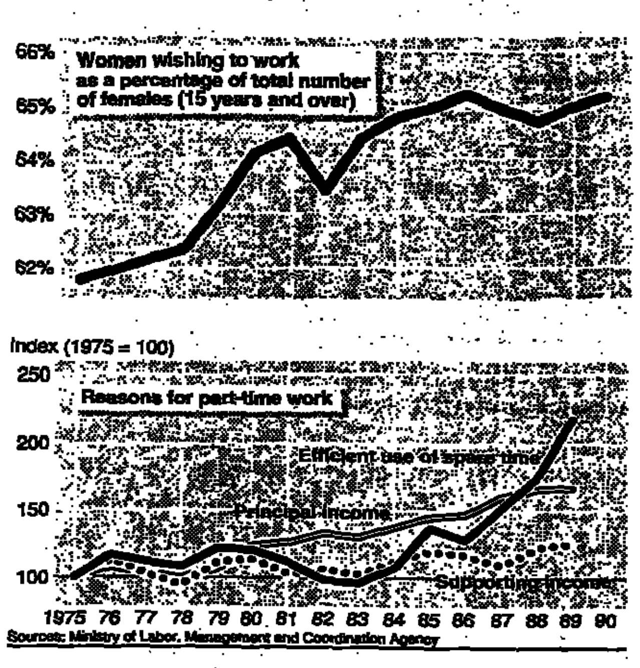
The growing number of working women of all ages is altering the structure of the labour force, writes **Sheila Jones**

Motherhood is no bar

Women at work



Sources: Ministry of Labor, Management and Coordination Agency

WOMEN

WOMEN are entering the *Japanese labour market in* greater numbers than ever before as the demands of an expanding economy have cut through old attitudes and changed the structure of the labour force.

This year women accounted for 37.9 per cent of the labour force, compared with 37.4 per cent last year and 32 per cent *in 1975*.

Fewer women are giving up work after marriage and many more older women are being coaxed back to work after rearing children because of a shortage of young recruits. Sixty per cent of working women are married, 70 per cent are aged over 30.

Even as the economy slows, *there is likely to be only brief* respite from a long term labour shortage and as more women enter the labour force attitudes are changing.

The gains made by working women in Japan in recent years will be difficult to claw back, but there are still barriers to promotion and higher wages.

Just over 8 per cent of women in the labour force are *in management positions*. Women's earnings are on average 53 per cent of male earnings although the gap is narrowing. Women with a college or university degree, aged between 20 and 24, enjoy near wage equality with their male counterparts. The wage differential widens among older graduates, and the gap is widest among older, unskilled workers.

Women are concentrated in the lower paid services sectors, *mainly in office administra*tion, shop work and catering. The number of part-time jobs, filled mainly by women, has also grown rapidly. More than a quarter of the total female workforce is in part-time employment where wages are low and where there is little job security and few of the statutory rights enjoyed by full-time workers. Many women who leave work to *have a family return to* part-time work. A labour min*istry report* published this month said 63.9 per cent of women leaving work to have children were rehired as part-timers. The government is committed to improving the rights of part-time workers although so far it has issued only guidelines to employers.

Full-time office work is split into two main areas: the jobs that have a career path with management prospects; and the general administrative jobs that are lower status and where promotion prospects are virtually zero. Men tradition*ally go for the career path* jobs and women for general work. The ubiquitous Japanese Office Lady (OLs as they are called in Japan) is to be found in this latter, low-status category.

But more Japanese women are opting for career employment. In the financial services sector, where more than 6 per cent of the total female work*force is employed*, many women enjoy greater wage equality and promotion prospects than in manufacturing and lower-skilled office jobs. The larger corporations are also more likely than smaller companies to offer women better access to promotion and higher salaries.

At NEC, the electronics and communications group, Ms Fusako Utsumi switched from software development to the company's personnel division with a brief to promote women.

"One of our priorities is to recruit as *many* capable women as we can. This year we are hiring 200 women in the technical division and 60 in office *administration. It is still* only a fifth of total recruitment but the figure would be higher if there were more women with the right *qualifications*."

The number of Japanese women entering *higher* education is increasing but there are still many more men with technical and scientific qualifications.

Last year, 37.4 per cent of schoolgirls went on to some form of higher education, compared with 35.2 per cent of boys. Yet only 14.9 per cent of all *female graduates emerged* with a university degree compared with 40.2 per cent of male graduates. Ms Yuiko Matsumoto, director of women's issues with Rengo, Japan's trades union federation, says it has been easier for women to demand equal access to jobs *since the Equal* Opportunities Employment Act was implemented in 1986, *but there are* still problems.

"It is hard for women to get on because male attitudes and structures remain rigidly opposed to women's advancement in employment," says Ms Matsumoto.

"Employers say if you want equality then you must work as men do. That is a problem because *what they are saying* is you must be prepared to do the dirty work and to work long hours. As unions, we have to campaign for better working conditions and shorter working hours for men and women."

Women are barred from working nightshifts (with a *few exceptions such as hospital* work), and overtime hours are *limited to 150 hours* a year.

Rengo is targeting three main areas it believes are crucial to women's progress in the labour force: improved working conditions and shorter hours; better provision for childcare and care for the elderly; and changing male attitudes to women in the workforce.

Local authorities provide earnings-related subsidies for *childcare and nursery places* but the level of provision and *subsidy* varies greatly. Just over half of Japan's parents leave their children at state or private nurseries, while 45.3 per cent rely on parents to look after their children. There is very little provision for the care of babies up to three years old or for childcare outside office hours.

The government's Childcare *Leave Law*, to be implemented next year, will give parents a *statutory right to take a year* off work to look after a newborn child, although there are no penalties for companies which fail to comply and no specific guarantees about the nature of work for returning parents.

Many employers are trying to recruit, in particular, from the large pool of women aged between 30 and 50 that have dropped out of the labour market, often to have children. The labour force participation rate for Japanese women is at its highest in the 19-24 age group, and its *lowest among* women aged between 30 and 35, when *some start* returning to work as their children start school.

Mr Hiroshi Koizumi, personnel manager at Yoshinoya, the 24-hour fast food chain, says the company has shifted its recruitment policy towards women over 40 because of the shortage of young people.

"Ten years ago we recruited almost exclusively among *young students*. Now we are targeting older women, aged around 40. Women in this age group account for about 40 per cent of our workforce, most of them working part time. A decade ago, the whole workforce was much younger and came from universities, colleges and high school."

Yoshinoya says the company's *shift patterns appeal to* women with families, with *most part-timers putting in* three or four-hour shifts at a *time*. The labour shortage coupled with a general, though limited, shift in attitudes among male employers has *improved* women's access to jobs and promotion.

But changing attitudes among women is just as important, says Mrs Emiko Shibayama, women's studies researcher. "Young women these days don't automatically think they'll get married, have children and live happily ever after. Many are highly educated and more aware. They want to be socially and economically active. They want to play their part."

Camera girl: finger on the trigger

Slimming session for middle-aged and elderly ladies: getting in trim for a wider range of activities

Ashley Ashwood

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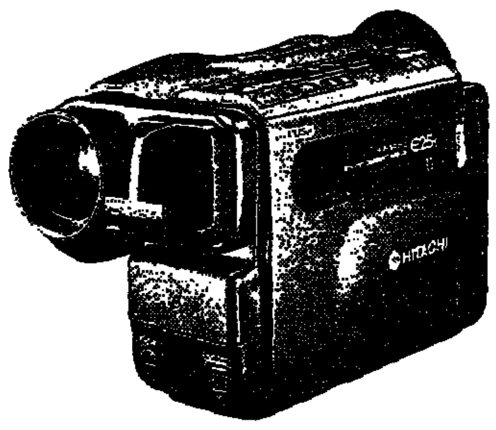

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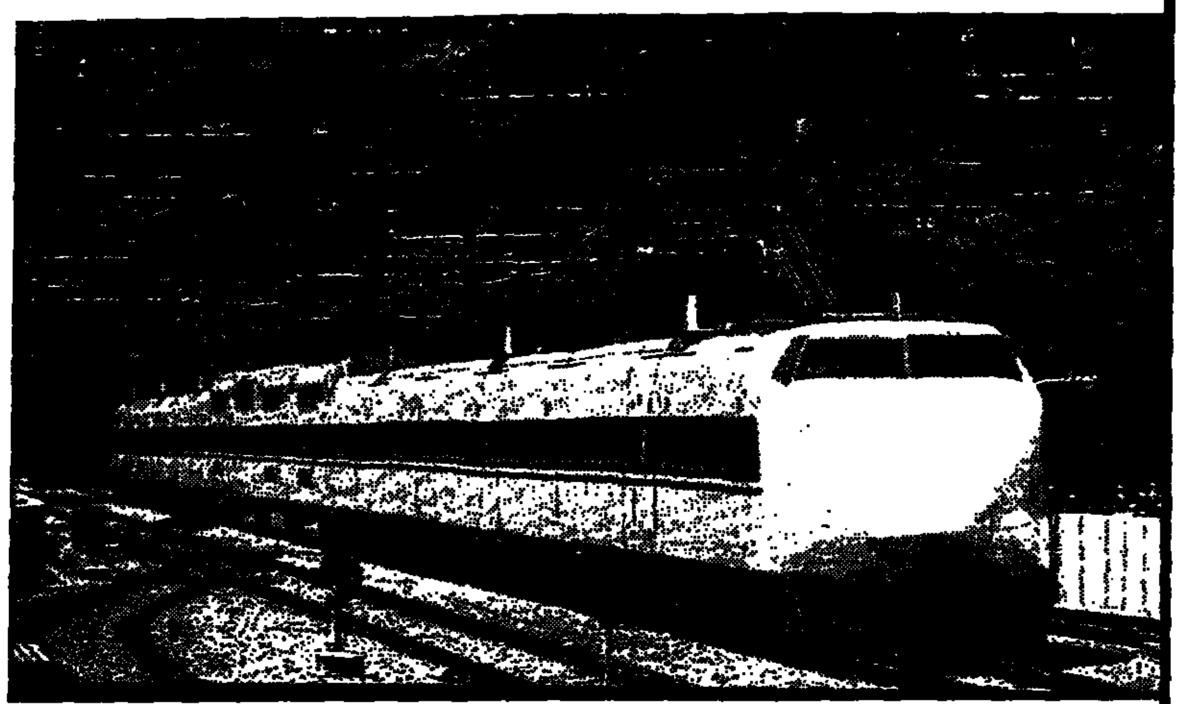

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Pressures mount to admit foreign labour, writes **Stefan Wagstyl**

Exclusiveness under strain

SOONER or later, most industrialised countries have eased labour shortages by admitting foreign workers. Not Japan.

Far from relaxing immigration rules in response to labour shortages, the government last year revised the law to strengthen the barriers by imposing severe penalties on employers found guilty of using illegal non-Japanese labour.

Nevertheless, there are signs that the same inescapable pressures which forced other countries to ease tough immigration laws will gradually force Japan to do the same. Even though the official position of the Ministry of Labour is to toe the Ministry of Justice's hard line, more and more reports are circulating in the political and economic establishment pointing out – usually in the gentlest terms – that the government cannot ignore economic logic for ever.

In a report published this year, The Bank of Japan said that economic growth would be stunted unless Japan increased the employment of women, older people, and foreigners. "Cross-border mobility of labour will become inevitable," said the central bank.

Last month, a section of the ad-hoc committee for the promotion of administrative reform, an important government think-tank, suggested relaxing the rules for the admission of foreign trainees.

According to the Ministry of Labour, some 94,000 non-Japanese entered Japan last year to work, up from 44,000 in 1985. The biggest increase has been among the only racial group which is given special treatment under the law – nationals of other countries with Japanese blood. They come mostly from Brazil and other South American countries to which large numbers of Japanese emigrated in search of a better life before the Second World War.

The number of South Americans registered in Japan soared from 22,000 in 1989 to 71,500 last year and is still growing. This is more than a fifth of the total number of 360,000 foreigners legally working in Japan, according to recent census data.

While some foreign workers, including many Westerners in Japan, are employed in high-skill occupations, most come to do the dull, dirty and dangerous jobs which Japanese themselves turn down. The biggest shortages are in construction, trucking, and small manufacturing companies such as painting shops, scrap processing yards and metal-bashing workshops.

Following last year's change in the immigration laws, Pakistanis and Bangladeshis have been replaced in these jobs by South Americans of Japanese descent and also by growing numbers of Iranians, who enter the country under an exceptional bilateral no-visa travel agreement.

Even foreigners working legally are often easy prey for exploitation and abuse because they rarely speak Japanese and have little knowledge of Japanese customs. Those working illegally are worse off since they are afraid to ask for help.

Welfare agency officials say that the biggest arguments are over terms of work. Often immigrants have been brought by a job broking company which made promises about pay and conditions on which it subsequently reneges. Other disputes concern housing – it is difficult for foreigners to find accommodation because of the cost and because Japanese landlords will often only let property to Japanese.

Many Japanese see their worst fears being fulfilled in these conflicts. They also point to recent police statistics showing that a rising number of crimes are allegedly committed by foreigners.

FOREIGN WORKERS

In truth, Japanese themselves often contribute to the problems caused by immigrants. Japanese criminal groups, *yakuza*, are sometimes involved in job-broking and in extracting protection money from companies employing illegal foreign workers. Immigrants are, for example, overcharged for their air tickets between South American and Japan or levied fees for non-existent services.

In places where Japanese employers and/or the local authorities have tried to protect their immigrant workers from exploitation there are rarely any reported problems. This includes the minority of immigrants working for large companies such as Isuzu Motors, the vehicle maker, which employs 700 Peruvian- and Brazilian-Japanese at Kawasaki near Tokyo.

Another town where immigrant workers from South America seem to have settled reasonably well is Oizumi, on the northern outskirts of Tokyo. A group of 30 small businesses banded together to hire Brazilian-Japanese and won the support of the town council, which has employed Portuguese-speaking staff to help the newcomers. The employers are building new flats specifically for their immigrant workers.

Mr Katsumi Yonezawa, owner of a company making seat cushions for railway carriages, says that there are few problems with those immigrants who are properly treated. He adds that Brazilian-Japanese work just as hard as native Japanese.

It will be a long time before the Brazilian-Japanese in Oizumi feel completely settled. A poll carried out by the town council found that 90 per cent of foreign workers now in the city plan to leave after working a year or two. But there are signs that some may stay longer than they intended — the city boasts at least two restaurants run by Brazilian-Japanese, plus a second-hand car dealership and a supermarket.

However, as Japan's working population starts to shrink after the mid-1990s, so it will be increasingly difficult to close the gap only with foreigners of Japanese descent.

Employers have found that some officials at the Ministry of International Trade and Industry are quite sympathetic to their problems. But they have yet to convince many people at the Ministry of Labour let alone the arch-conservatives at the Ministry of Justice.

Labour squeeze spurs retraining, says **Robert Thomson**

Investment in human skills

A FEW MONTHS ago, Daiken Trade & Industry, Japan's largest maker of fibreboards for houses, decided to revise its training and promotion systems, and allow promising workers to rise through the ranks on the basis of expertise and merit.

The early selection of talented workers and their designation for special training programmes was an ambitious step for a company that had promoted the mediocre in tandem with the outstanding, and had used time-served as an important measure of worker quality.

Mr Kazuhiro Izumi, head of Daiken's personnel department, said the company had planned the change for two years, and ensured that employees accustomed to the old ways were not too offended by the "New Personnel System". The company wanted a "soft landing", which means that many of the changes will be aimed at newly-hired staff rather than existing employees.

The labour shortage is encouraging companies to overhaul their existing training programmes to give skilled workers more flexibility, and to encourage loyalty. There is a widespread sense that traditional worker ties to the company are weakening and the introduction of mid-career training programmes and a renovated career path are seen as bolstering that faltering loyalty.

"We have to give people more training and more explanation about their training. People want to be told what their potential is and they want to know where their skills fit in to the company's plans. Young people have lost loyalty because there are more jobs than people, and so we want to give people more skills and make them feel more useful," Mr Izumi said.

Japanese companies have traditionally regarded on-the-job training as more important than a university education, which is presumed to be too general to be of much use to them. A common policy has been to give graduates a year or two in sales and a stint in marketing, and to assign a more senior worker to take care of a single newcomer.

But companies, concerned that existing training programmes have failed to keep pace with recruits' changing expectations, are experimenting with group training techniques. For example, the newcomer may be assigned to a group of 10 workers who ski and study together with, the company hopes, the result that loyalty is developed within that group as well as to the employer.

The task is more difficult for manufacturing companies reliant on a worker's ability to acquire highly specialised skills and use them over the long term.

Mitsubishi Bank estimated that the shortage of workers in the metal moulding and sheet metal industries could be as high as 40 per cent, and that the overall skilled labour shortage rose from 3.1 per cent in 1988 to more than 15 per cent last year.

Companies fear that a shortage of these skilled workers will inevitably lower the quality of output, as inexperienced staff are called on for demanding jobs.

At the same time, some workers are showing an increasing pride in their skill rather than a commitment to their company, putting pressure on the employer to improve remuneration and to maintain high technical levels within the factory.

TRAINING

A survey of manufacturing companies' training policies by the Japan Management Association has recently found that a majority, 48.2 per cent, listed the maintaining of workers' skills as their top priority this year.

The figure was down from 55.7 per cent last year, but still higher than the refinement of management techniques and the rationalisation of labour and production, both of which received scores of 41.7 per cent in the multiple choice survey. The last ranked concern, cited by 15.5 per cent of companies, was the training of women workers, though the figure was at least higher than last year's 14.8 per cent. Increasing morale was cited by 40.9 per cent of companies, down from 55.7 per cent last year, while reducing working hours was listed by 35.5 per cent, up from 27 per cent last year.

Mr Shinobu Shinkawa, head of the personnel department at New Japan Chemical Company, a maker of oil and fat products and chemicals, said employees in mid-career are given 10-day training programmes to ensure that they are aware of the latest techniques in the industry. Managers are sent for 10-day periods in one of the companies' five factories to inform them of changes in the workplace since they were promoted from the factory floor.

"We encourage our workers to take an interest in university research related to our business, and we form internal study groups with members from a range of backgrounds," Mr Shinkawa said.

While companies are agreed that skills can be taught throughout a career, there is now a debate over whether loyalty can be taught to the latest generation of workers. Mr Hirotaka Ibaraki, personnel manager at Yamaichi Electronics, a semiconductor equipment supplier, said that managers are instructed to make workers "feel that our company is a good company", while group trips for recreation or training seminars are also used to encourage loyalty.

"We find it very useful to hire people who have worked outside our company because they can bring a new perspective to the workplace", he says. "People who have been with us for a long time may feel that changing jobs is attractive simply because they have no experience of another company. But the people we hire mid-career can give the workers a better sense of what it's like in the outside world and explain the merits of our company."

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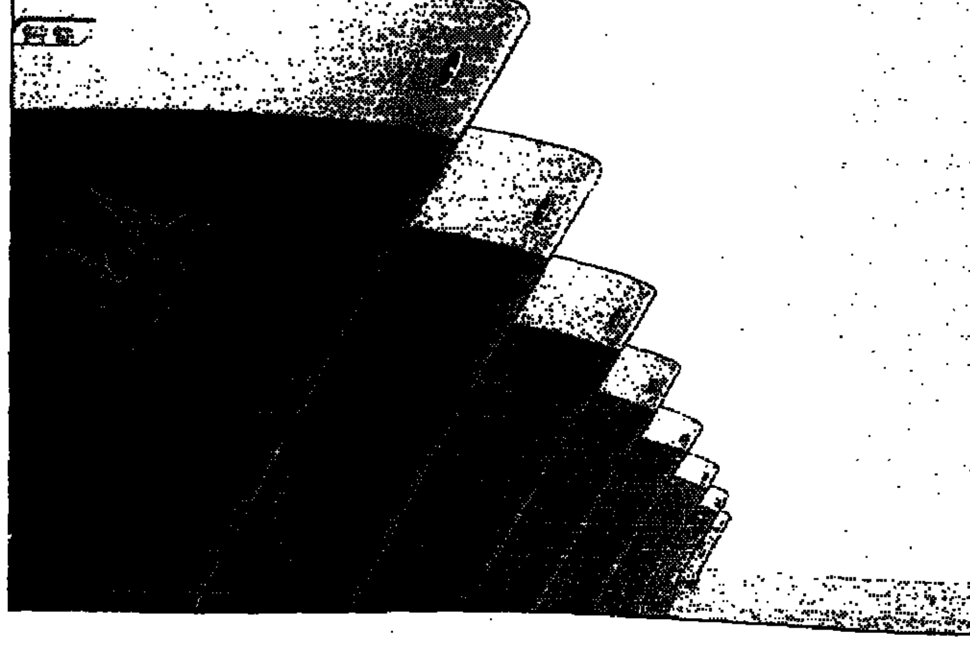


Graduates are in high demand, writes **Robert Thomson**

Free-for-all on the campus

JAPANESE companies have an agreement among themselves to wait until October before attempting to cultivate university students for the spring recruitment season. The agreement is never honoured.

The rush to hire graduates has become increasingly unseemly, even among the well-known companies whose name alone ensures them a steady stream of applicants. University professors are wined and dined, old-boys are sent back to the campus to "sell" the virtues of working for company X, and prospective employees are taken on all-expenses paid holidays.

A Japan Management Association survey of hiring policies found last month that the biggest concern of leading companies was not the quantity of new staff, but the quality, hence the stampede to sign up promising graduates. The quality problem was more severe at small and medium sized manufacturing companies, which have seen engineering graduates lured away by the financial industry, leaving them an ever smaller pool of talent.

At the same time, these small manufacturers, often sub-contractors for the larger, better-known companies, must rely less on the once-a-year hiring spree. About 48.7 per cent of workers at companies with more than 3,000 employees are hired at a set time each year, while the figure is only 20.6 per cent for smaller companies.

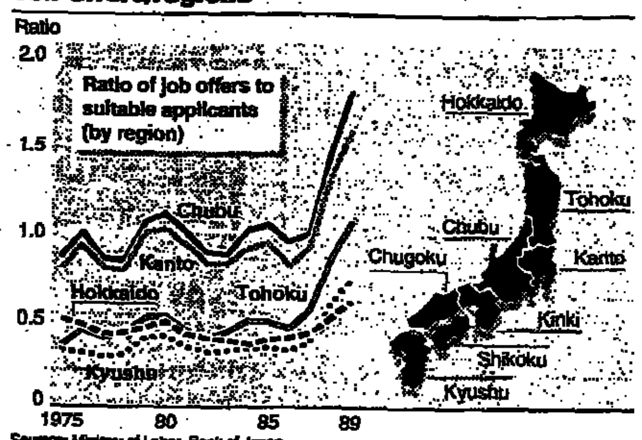
Mr Shigehiro Murakami, director of general affairs at Nippon Gasket, which has 180 full-time staff, hires two technical graduates each year and seven labourers for a plant outside Osaka. This year, the two engineering graduates were hired, but only two of the seven labourers, while two labourers hired last year resigned.

"It is a very difficult problem for us. We have a saying that you can fish and fish but if the pond is empty, you will never catch anything," he said. About 70 per cent of Nippon Gasket's output is bought by Toyota Motor, but Mr Murakami said that the car maker is unlikely to help in the search for new staff.

Nippon Gasket is a member of the rHK Spring keiretsu (family of companies), the world's largest maker of springs for automobiles, and sometimes receives a transfer of technical staff from that company. It is expected that smaller members of keiretsu groups will be increasingly keen to associate themselves with the core company in an attempt to improve their image among young people.

Young Japanese and, importantly, their parents, associate a famous corporate name with job stability and personal prestige. Most Japanese employees introduce themselves by listing their company name and then their family name and, given the expectation of lifetime employment, joining the right corporate family is a priority.

Job offers/regions



Sources: Ministry of Labor, Bank of Japan

GRADUATES

Kubota, the country's leading maker of farm equipment, has the famous name, but is keen to present itself as a rapidly diversifying high-technology company as well as a reliable maker of farm equipment and ductile iron pipes. The company last year adopted a new logo and embraced a catchword "hu-tech", suggesting a combination of humanity and technology.

Mr Hiroshi Toyoda, the manager of Kubota's personnel department, said that ordinary manufacturers have fallen behind service companies in the top table of desired workplaces. This trend has encouraged manufacturing industry to improve housing facilities for workers and to renovate the factory floor – machine suppliers are being told that equipment should be less intimidating and more appealing to the eye.

Manufacturing companies say they have benefitted this year from public revulsion over Japan's banking and securities industry scandals, which has seen the implicated institutions falling in popularity among job seekers. Concerns about land price falls and the general volatility in the property industry have also made related companies less attractive for applicants wanting long-term stability.

Mr Osami Nishikawa, head of the personnel section at Daiwa House Industry, the second largest home builder, said that his company's recruiting has not been affected by property price turbulence, but "there may be a bit of influence on the industry as a whole".

"The important thing for us in recruitment is that we are well-known. Many Japanese people don't pick a specific type of work, they choose a specific company that has a good name," Mr Nishikawa said.

He said that young Japanese are not interested in work that is dirty, dangerous or demanding, and that construction companies are under pressure to develop labour-saving technology. About 40 per cent of the company's 9,450 workers are involved in construction and related technical work, while office and sales staff comprise about 50 per cent, with researchers and designers accounting for 10 per cent.

Companies with a large appetite for labourers are attempting to reduce their dependence on seasonal workers, and build a stronger core workforce for "dirty and demanding" labour. Meanwhile, the threat of longer-term shortages of qualified technical staff is encouraging electronics companies to look to mid-career recruits to fill gaps in the workforce.

Mr Hirotaka Ibaraki, personnel manager at Yamaichi Electronics, a Tokyo supplier of sockets to semiconductor makers, said that recruiting young technicians was "difficult", partly because they were initially attracted to the company's customers, including NEC, Toshiba, and Fujitsu. In 1990, Yamaichi, which has 420 staff, hired 25 new graduates and school leavers, rising to 44 this year, though, with demand weak in the chip industry, the new intake will fall slightly to 40 next spring.

"We don't hire only recent graduates now. We are a young company (est. 1956) and have a shortage of middle and senior managers and technicians," Mr Ibaraki said. One change which apparently increased the company's appeal among prospective recruits was a move two years ago to a new headquarters with manicured hedges and a tasteful facade.

"I think the new building makes a good impression on people thinking about joining the company. There was really no room in the old building. The desks were squeezed in and the corridors were narrow. People are impressed when they come here now," he said.

But companies such as Yamaichi Electronics fear that changing Japanese demographics will mean ever tougher competition in recruiting technicians, and that smaller companies will suffer most. The number of Japanese in the 20-24 years bracket was 8.93m last year, and is expected to rise to 9.97m in 1995, but fall sharply to 8.46m in 2000 and to 6.46m in 2010.

Fears of an intensifying rush for recruits has prompted some companies to call for a revision of the failed recruitment restraint pact. Mr Shinobu Shinkawa, head of the personnel department of the Osaka-based New Japan Chemical Company, admitted that his staff now begin the recruit search about 10 months ahead before the agreed October starting date.

Mr Toyoda at Kubota, whose company is a party to the agreement, recently delivered a public speech entitled "What comes after the recruitment pact?"

He said that Japanese companies have so far "managed to maintain order in spite of the violations" – Kubota starts the hunt in June, and he is not aware of any company which waits until October.

Student power: 1,500 new employees are welcomed by the Daiei supermarket chain

Programmers' prospects are changing, writes **Gordon Cramb**

First signs of a shake-out

QUESTION ONE: *Which skilled job is so much in demand that industry leaders say shortages of qualified personnel are hampering companies' development plans?*

QUESTION TWO: *In which skilled job is there a glut of qualified staff anxious to find secure posts?*

The answer to both, oddly, is the systems engineer, the writer of the programmes which drive everything from industrial robots to point-of-sale stock control.

The shortage of systems engineers has been a subject of popular complaint by employers.

Mr Masayasu Toyohara, deputy manager in the employee relations division of Toshiba, the electronics giant, says: "This is a key function of the company. Groups which did not hire them in the past began to do so in order to upgrade. The number leaving university remained the same, so it has caused a shortage."

But there are signs of a shake-out. It has already begun in the financial sector where banks, under pressure to meet the capital adequacy measures of the Bank for International Settlements, appear to be shunning any substantial new spending on electronic systems. So do securities houses, buffeted by a bad year on the stock market. Typically they will have systems engineers in-house, but for larger, ground-breaking projects they would turn to outside expertise.

Mr Kigen Miwa of the systems engineering group at Fujitsu estimates that there are 2,800 specialist companies in the industry, a number which rises to 6,000 if broader groups which contain a systems division are included.

SYSTEMS ENGINEERS

Many of the specialists are small operations, at the lower end employing as few as 10, and some had dedicated themselves almost entirely to servicing the financial sector. "Companies specialised in financially related work are having a particularly bad time," says Mr Miwa.

He predicts takeovers within the sector by next spring, saying some owners are seeking to sell to a buyer with the resources which would allow it to take a longer-term perspective. Most, he says, are limping by on profits accumulated from previous good years. Employees are knocking on doors at the larger and more diverse groups.

Such groups are naturally more immune, but even there a change in customer attitudes is visible. For Fujitsu, which has 15,000 systems engineers under its wing, the financial sector accounts for only 10 to 15 per cent of its systems contract work, itself only a small portion of its nearly Y3,000bn annual revenue.

Mr Miwa says, however: "Systems engineering previously never knew of a slowdown. But this time the workload has been reduced for the first time.

"We are beginning to see maturity in the software engineering industry. Now it goes along with the movement of everything else."

He candidly admits that the dip is expected to be short-lived and should help to end cosy practices in the industry, which takes in raw graduates and gives them between six and 18 months' on-the-job training. These trainees would be despatched to customers as part of the systems team for a project, perhaps one for every five or six who were fully qualified.

"We have had to pretend he is a legitimate, fully-fledged systems engineer. The customers never complained – they just wanted the job done." He adds that this might be a good opportunity to shed "some unnecessary fat".

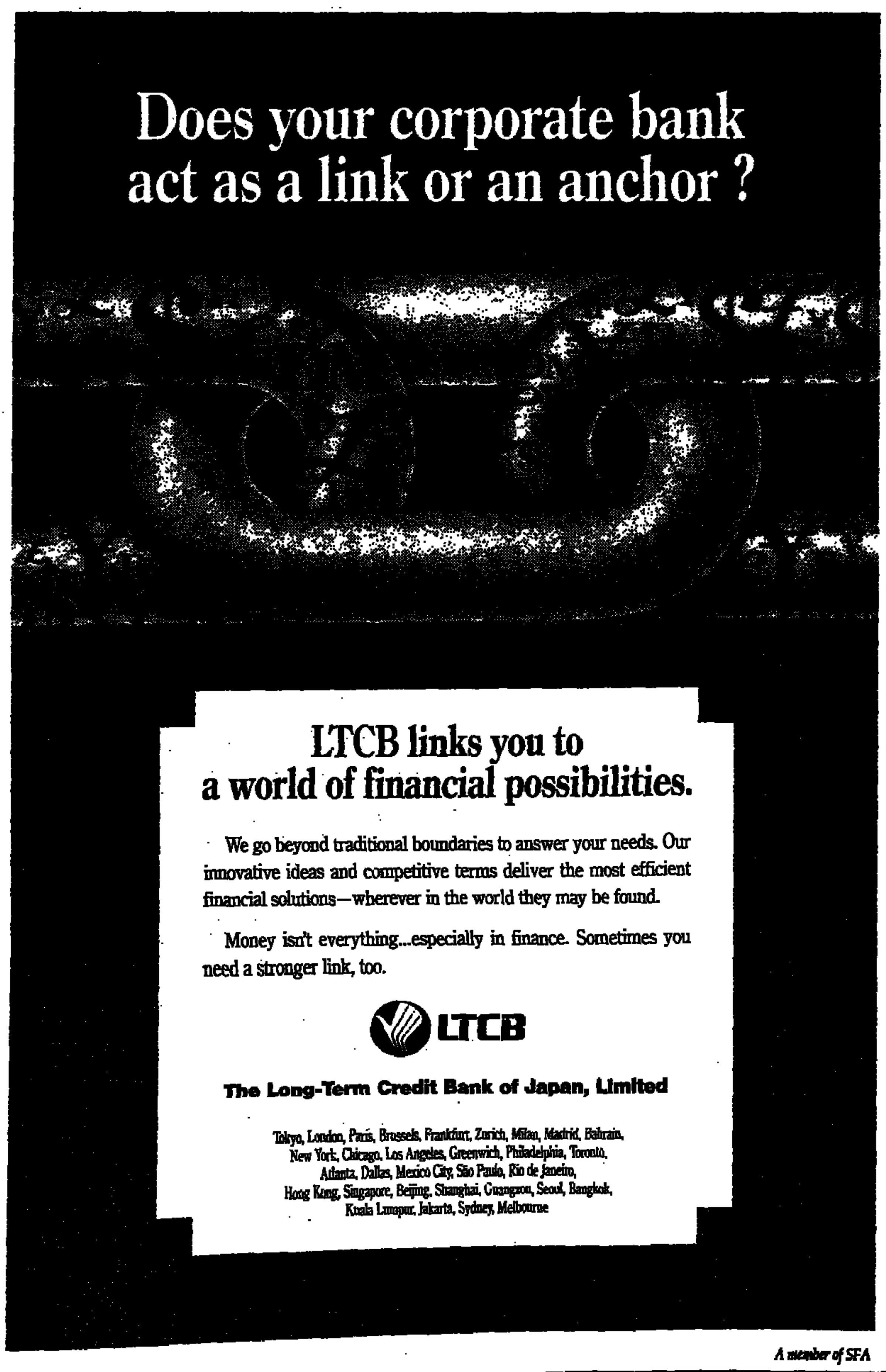
Others confirm that cash-squeezed clients are looking more closely at the billing for systems work that they commission.

"I have been told the same thing by customers," says Mr Masuaki Iwata of NEC, Fujitsu's main domestic rival in dedicated software systems.

However, he still finds it "difficult to assemble authentic engineers who can do the job". Retraining them to work in different industrial sectors is beginning to happen but is not viewed as being easy. "Computer skills are not enough. Engineers must understand the business of clients and be able to give them consultation."

As most expect an overall revival in demand by late next year, the skills imbalance between undersupplied manufacturers and contractor companies with time on their hands is likely to be largely redressed.

The systems engineering sector which emerges may, however, have undergone a rationalisation from which its users could benefit.



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JAPAN INDUSTRIAL REVIEW 6

Youngsters prefer the bright city lights, writes **Sheila Jones**

Factory jobs go begging

MANUFACTURERS in the three-K industries (*kitanai*, dirty; *kitsui*, difficult; *kiken*, dangerous) are having to work hard to lure new recruits impressed by more glamorous jobs in the other three Ks: *koho*, *kokusai*, and *kikako*, advertising, international business and planning.

Whether or not either of the three Ks means much to anyone entering the labour market, it is hard to imagine why a young Japanese graduate should want to work in sectors such as chemicals or construction. Brought up in affluent times, they are more inclined towards the big city trading houses, a fat salary and embossed *meishi* (business cards).

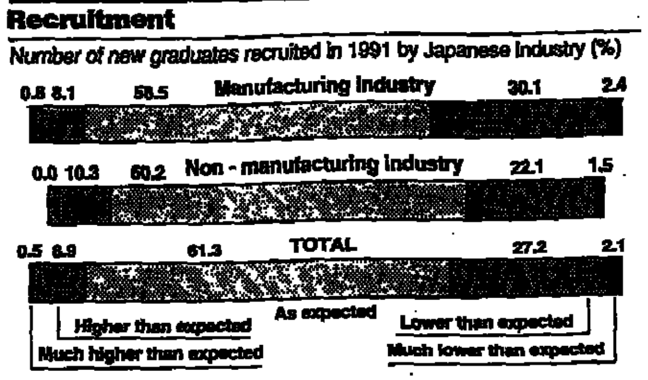
The labour shortage is acute among manual workers and most sectors are suffering. Japan's highly educated young people simply do not want to do the hard and grubby work.

The Ministry of International Trade and Industry (Miti) is exhorting manufacturers to clean up and automate. It is offering fiscal incentives and grants to small and medium-sized businesses that want to freshen up their factories with new air conditioning systems or a coat of paint.

But there is only so much you can do to improve life on a building site. Some construction companies are trying to appeal to new graduates with smart new uniforms and hardhats. They are commissioning pop singers to record the company song. Such measures are having a limited effect.

Recruitment

Number of new graduates recruited in 1991 by Japanese Industry (%)



Source: Japan Management Association

Fewer than a third of Tokyo's science and technology graduates entered manufacturing last year, compared with about half in the mid-1980s.

More than half the construction companies surveyed by Miti in August this year said they were suffering from an undersupply of labour.

More women are entering the industry, but old habits and superstitions die hard. A woman working in tunnel construction is unthinkable – men still think it is unlucky.

Mr Takahiko Yasuda, managing director of Dai Nippon Construction, whose sales are divided between building and civil engineering, says the company has limited its work volumes because of the shortage. "We could absorb maybe 20 per cent more people than we have at the moment. A few years ago we tried to recruit hi-tech engineers in China. We interviewed many but we could not get people with the right qualifications," he says.

Dai Nippon Construction starts recruiting in the universities a year before students graduate and it talks to fourth graders at high school.

Employers are aware that higher wages are not the only solution. Many are making shift patterns more flexible, reducing hours and increasing holidays and other benefits.

Mr Yasuda believes the shortage will speed up mechanisation. "The need for a new machine is the main impetus for innovation. The more we mechanise the less labour we will need. Even cheap labour is more expensive than an efficient machine."

MANUFACTURING

Miti shares Mr Yasuda's optimism. "At the time of the 1973 oil shock there was a severe oil shortage and people thought they would not survive. Now Japanese companies are the most energy efficient in the world," says Mr Shoichi Ikuta, Miti's director for industrial and labour policy planning.

Japanese manufacturers have a long record of bouncing back, yet rapid automation in the past two-and-a-half decades could make further substantial progress difficult.

Much of the recent technological progress in construction has been piecemeal, such as the introduction of robotised sand-shifting and concrete-laying and the use of climbing robots to insert fasteners or nails. A technological revolution in the industry is unlikely.

Mr Mark Brown, an analyst with Barclays de Zoete Wedd, says the industry will have to turn to foreign workers to fill the gap. "It has no choice but to depend more and more on imported labour and to co-operate with the ministry of labour's attempts to bring in trainees."

Already, the industry relies heavily on the country's immigrant workforce, most of them hired out to the construction companies by subcontractors. Yet while the labour shortage is hurting it is perhaps the least of the construction industry's problems. The sector has enjoyed four fat years but orders are slowing sharply.

For the top 26 companies orders are flat in the first half of this fiscal year to September. At Dai Nippon Construction, the past two years have seen orders grow by 20-30 per cent. The company is forecasting growth this year of 15 per cent, sliding to only 5 per cent in 1992.

The industry as a whole this year could see the first year-on-year decline in construction orders since 1982. A modest rebound is expected next year and in 1993 with orders forecast to grow by 2 per cent and 3 per cent.

"It looks like a return to the bad old days of the early half of the 1980s when orders grew by only 2-3 per cent a year," says Mr Brown. "Profit margins and profit growth still look quite good. At the top, 26 companies' pretax profits rose about 30-35 per cent in 1990 and they should rise by between 15 per cent and 20 per cent this year. In fiscal 1992 that will be down to around 10 per cent."

He adds: "The difficulty is that you have orders and completions two or three years down the road as the general economy is slowing. The orders 'impact on earnings will take a few years to come through."

Construction is being squeezed by higher interest rates, scarce credit, a declining property sector and slower capital spending. Many of the large operators are also exposed to loans and loan guarantees made to property companies to win business during the boom years. Profits at Tobishima, the contractor and developer, dropped sharply in the first half this year after losses on debt guarantees to Nanatomi, the developer and stock speculator, which failed earlier this year.

The decline in construction orders reflects in large part the slump in the private sector, which accounts for just under 80 per cent of orders for the top 50 companies. Demand for public works is strong, however. The government's infrastructure programme for the 1990s will help bolster order books but it is unlikely to fill the gap left by the private sector.

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Tokyo airfreighter: a rival to trucking

Wasteful sectors in the dock

Spotlight turns to inefficiency

JAPAN'S services industry is referred to by MITI officials these days as the over-services sector: retailers, packagers and distributors are overdoing it.

Department stores have too many people running about doing nothing in particular; packagers are overwrapping, wasting time and paper; distributors are making too many trips on Japan's already congested roads for customers demanding express services and just-in-time delivery.

Waste in these areas is depriving other sectors of labour at a time when an acute, and structural, labour shortage threatens to hamper long term growth. Services overtook manufacturing as the biggest contributor to GDP 16 years ago, but the sector has much to learn from manufacturing, says Mr Shoichi Ikuta, industrial labour planning director at Miti.

"Manufacturing productivity has jumped 200 per cent in 20 years while the labour force has risen only 4 per cent. It has improved productivity through mechanisation while the services sector has increased employment but failed to improve productivity."

The trucking industry is especially vulnerable to the effects of a shrinking labour pool because it is so labour intensive. Trucks are standing idle for want of a driver, and the big companies are turning to sub-contractors, mainly very small operators, to deliver parcels and goods. Subcontracting costs have risen sharply as a result while freight rate increases have been limited by government controls lifted only last year.

Trucking operators have tried to lift recruitment by introducing more flexible work patterns, increasing wages and offering better fringe benefits. And while Miti is urging greater use of women in the labour force, there are few women truck drivers because employers are reluctant to take on women in jobs traditionally done by men, coupled with government restrictions on heavy work. As the labour force has shrunk, truckers have focused less on competing for workers and more on mechanisation and reducing their reliance on labour-intensive operations.

The labour shortage began to hurt the industry in 1988 when the number of drivers to trucks in the country drew level after years of plentiful supplies. In 1978, there were 14 drivers for every 10 trucks.

There are signs that the shortage is easing with the slowdown in volumes and sales growth after rapid expansion in the past few years. Seino Transport, one of the big five operators, last year managed to recruit only 371 employees, most of them drivers, compared with an annual rate of about 1,000 four to five years ago.

DISTRIBUTION

This year Seino, which derives the bulk of its sales from freight delivery on long-distance scheduled routes, says it will take on 800 new employees. This should enable the company to reduce subcontracting costs which jumped 17 per cent last year taking up 34 per cent of sales revenues.

Nonetheless, the sector is conscious that the general slowing of the economy is likely to provide only a brief respite from the falling birthrate and ageing population.

The large operators are trying to automate as much as they can, computerising distribution and mechanising much of the labour-intensive work at depots and warehouses. And they are constantly upgrading distribution technology.

Automation is already underway at transshipment depots where packages are sorted according to destination and reloaded on to trucks. Before automation, such a depot would be teaming with people sorting parcels and forklifts shifting and loading. Automatic parcel grabbers and sorters cut out about 95 per cent of the labour. Similar savings are being made at automatic storage warehouses.

Truck companies, such as Seino, Nippon Express and Yamato Transport, are also investing in value added networks using their newly installed systems, providing computerised inventory control for their customers. Yamato Transport whose core business is at the more labour-intensive end of the market in door-door parcel delivery, last year introduced a fax information and messaging service installed at retail outlets and operating on the company's distribution mainframe.

The service contributes only a tiny proportion of revenues – less than 1 per cent – and it is likely to be many years in an untested market before the service makes a significant contribution, though the company is confident it will expand gradually.

Yamato has set up a section within the company to look for more ideas in communications and information technology.

"We have 18,000 drivers on the roads in Japan and we should use them to collect information that can be sold at minimum cost using our on-line computer system," says Mr Katsuhiko Saiki of Yamato.

Better truck design has produced limited results. Several of the large companies are using two and three-temperature trucks which enable greater capacity use.

The just-in-time delivery system, which enables manufacturers to minimise stocks, is increasing traffic congestion and delivery times. A sharp rise in passenger vehicles on the roads in the past 10 years has further choked up the roads.

All trucking accounts for 90 per cent of the country's 12,000 tonnes a day in freight movement. The large, long distance truck operators account for 39 per cent of total freight weight while the more numerous and less efficient small companies, most of them operating locally, take 61 per cent. There is one truck for every 15 people in Japan, against one for every 40 in the US.

The high-density of delivery traffic and the declining quality of Japan's road network is increasing the pressure for a shift towards other means of transport including rail, sea and air. Miti is urging delivery companies to use trains in a piggy-back system, loading and unloading trucks on trains at each end for the long haul. This sharply reduces truck mileage and the need for drivers.

The government is pledged to major road improvements costing Y53bn over five years – 1988 to 1992 – a rise of 43.6 per cent over the last five-year infrastructure plan. Its target is to increase road miles from 4,400 kilometers to 6,000 kilometres.

Trucks are likely to continue to dominate the distribution system, according to Ms Victoria Melendez, transport analyst at Jardine Fleming. The large truck operators are set to consolidate their hold on freight delivery at the expense of smaller operators who may be unable to afford the automation that will be crucial to the industry's future health.

Sheila Jones

UNDERMANNING

At the end of the queue

IN THE current tight labour market, smaller companies are facing serious manning problems due to employees' preference to work for large well known groups.

While the economic slowdown has alleviated some of the labour shortage, most smaller companies, with fewer than 100 employees, face a chronic shortage of new recruits. Younger workers tend to fight shy of smaller companies in dirty, dangerous and difficult sectors.

"One look at the factory, and some applicants just turn away without bothering to come for an interview," laments Mr Koji Yoshikawa, president of Osaki Kinzoku, a small gilding company.

Osaki's grey pre-fabricated office and plant is located in the Ota ward in southern Tokyo, where groups of small manufacturers and sub-contractors form a mini-industrial area.

According to the labour ministry, last year's shortage ratios – the ratio of employee shortages against the desired number of personnel – is highest at 24 per cent for companies with five to 29 employees. For companies with 30 to 299 people it remains at high levels at 11 per cent, against 3 per cent for companies with more than 1,000 employees.

SMALLER COMPANIES

Mr Yoshikawa says that although there have been some applicants during the last few months, it is hard to find long term employees. At Osaki, which has Y2bn in yearly revenue, the average age of the 60 employees has risen to about 45, and will keep rising if the current labour squeeze continues. "There will be no next generation to pass on the working skills," says Mr Yoshikawa.

Smaller companies find that they cannot mechanise operations because they would need complex applications which are able to manufacture a wide variation of products in small quantities. Larger companies have avoided the problem by shifting operations, which cannot be managed in mass automation machinery, to sub-contractors.

Mr Yoshikawa explains that they had once asked a robotics professor to analyse the possibilities of automating the factory. "He told us we would need very advanced appliances, and it would be more cost efficient if we carried on manually."

Most labour intensive companies see foreign workers as the answer to their problems. However, the government's current policy allows companies to accept foreigners as trainees for a year, of which a third must be spent studying the culture and language. Strict rules on foreign labour have tempted smaller companies, hungry for labour to hire foreigners illegally.

Salaries of legal foreign workers have increased sharply. Wages for nikkei – nationals of other countries with Japanese blood who are allowed to work in Japan – have soared, making it impossible for smaller companies to hire them. Mr Yoshikawa stresses the importance of a more lenient policy for foreign labour if smaller companies are to survive.

The slowdown in the economy has started to threaten profits at the smaller companies. "We can't let go of our workers even if it means a decline in profits. We will only have a hard time trying to get hire people once the economy turns up again," says Mr Yoshikawa. He reckons his company will be able to manage for another five to six years, but says future prospects are grim if the economic environment remains unchanged.

Matsuzawa Seiki, a manufacturer of hardness measurement devices, is also located in the same industrial area as Osaki. Despite the size of Matsuzawa, with annual sales of Y1bn, the company has succeeded in overcoming labour shortage problems. It solved the problem by building a plant in Akita, in northern Japan. A short term solution for manufacturers has been to take their plants to regions where job offers to applicants ratio is much lower than the city areas.

According to the labour ministry, in 1990, applicants in the Tohoku – Northern Japan region – had 1.22 job offers compared with 2.33 in Tokyo. Many Japanese manufacturers have started to move to the regions, and Matsuzawa has also taken advantage of the available labour and lower land prices.

Emiko Terazono

Capital flow slows down

Gear change in the 1990s

THEY HAVE BEEN dubbed the Japanics. They are the growing list of Japanese companies which abort plans to set up production centres in one of the newly industrialised countries (NICs) of South-East Asia, writes **GORDON CRAMB**..

Although individual cancellations are rarely announced, the overall reduction of Japanese direct investment in the region is clear. After peaking in 1989, last year's new commitments to the rest of Asia were down 14.4 per cent at \$7.1bn. For the six-member Association of South-East Asian Nations, which attracted \$4.1bn of the funds, the fall was 12.9 per cent.

The retreat, echoing a slowdown in flows toward North America and Europe, is thought to have quickened this year. It follows a heady run during the 1980s which, Ministry of Finance figures indicate, put a cumulative \$50bn or more of Japanese corporate cash into direct stakes in other Asian countries, of which roughly \$20bn has gone into manufacturing.

The downturn is due to an amalgam of an appreciating currency, inflation and wage rates in the intended location, and the credit crunch felt by many of Japan's medium-sized businesses.

Many groups, having undertaken a substantial investment programme, now believe that future expansion in the region must come from organic growth by their existing subsidiaries there. Moreover, they are looking increasingly for such growth to to be led by demand from within their host country and its neighbours rather than, as was often the original purpose of locating in that area, serving the world's established industrialised markets.

INVESTMENT

Not all those who spread into the region were among Japan's industrial giants. Some less prominent companies in relatively low-technology, labour-intensive sectors have staked their future on going offshore. As a rule they have done well, but they too are looking to local demand to fuel the next stage of growth.

No one, for example, would call Yazaki a Japanic. The company, whose main business is in supplying wiring harnesses to car makers, has 12 plants in six other Asia-Pacific countries ranging from Thailand, its first overseas base opened in 1962, to Australia. It now employs 30,000 outside Japan (including Europe and the Americas) compared with about 20,000 in Japan – for several years, the overseas workforce has exceeded the number of domestic employees.

The privately owned Yazaki, which in the year to June made group pre-tax profits of

Continued on facing page

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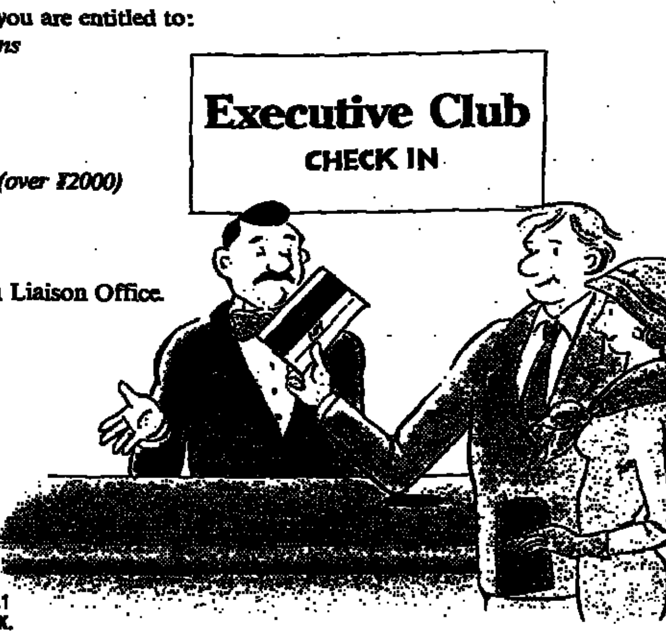

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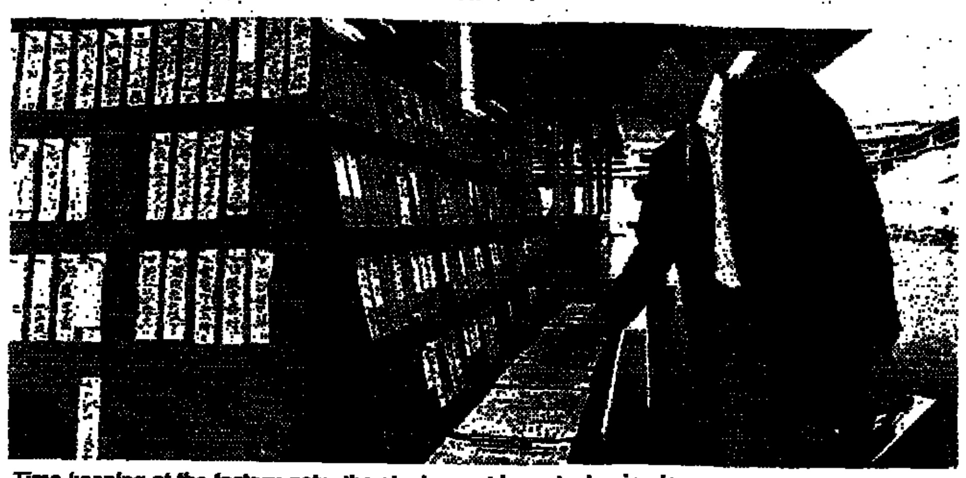

Time keeping at the factory gate: the single most important union issue

Court battles flare over premature fatalities

A life and death issue

WORKING HOURS

DON'T stand up if you can sit down; don't get up when you can lie down. It is an old Japanese proverb. Few of today's workaholic Japanese live by such an old-fashioned code.

"We used to say it when I was boy. I was lucky to be able to follow the advice," says Mr Eiji Harada, whose son, Hideki, died after a cerebral haemorrhage in May last year. He was 33. Mr Harada says Hideki was a victim of *karoshi* – death from overwork. He is suing his son's former employer, System Consultant, a computer software company, for compensation. It is one of two test cases currently going through the Japanese courts.

Lawyers representing the families of *karoshi* victims estimate that between 10,000 and 30,000 Japanese workers die from overwork each year. The families are campaigning for legal recognition of the condition.

Karoshi hotlines were set up in most of Japan's main cities in 1988 when the campaign started. In the first two years, 1,800 calls were made, more than half from the widows of workers who had died young from conditions they believe were caused by overwork.

The labour ministry says that no-one dies from *karoshi*. "People die from heart attacks or strokes, cardio-vascular diseases and other such conditions that can be brought on, or aggravated, by work stress and fatigue," says Dr Kiyotaka Segami, adviser on occupational health to the ministry of labour.

"The government does not use the word officially. Long hours never cause death but it may create the conditions that lead to death," he says. It is a semantic point. In 1988, the government recognised that overwork could contribute to a worker's premature death and sanctioned payments to the families of 29 workers (out of 678 claims) from a compensation insurance scheme funded by employers. *Karoshi* lawyers say the government's definition of cases that qualify for compensation is so narrow that only a very small number of claims are successful.

Japanese workers put in an average of 2,052 hours in 1990, including 185 hours of overtime, according to the ministry of labour. The figure is nearly 90 hours more a year than the average in the US, and about 300 hours more than the average in Europe. And the figures exclude unreported overtime by managers and senior staff.

"Japanese workers do put in longer hours than workers in some of our competitor countries," says Dr Segami. "But many people like working hard."

Working hours in Japan are actually falling, from a peak in 1960 of 2,426, including overtime. The government says it wants to reduce average hours to 1,800 a year, but the target appears optimistic in the face of a labour shortage that is increasing pressure for longer hours, particularly overtime.

While total hours are falling, trade unions say the problem of overwork stems mainly from the number of hours worked overtime, which the government restricts only among women employees.

Last month, the Japanese Supreme Court ruled against a Hitachi worker who was sacked when he refused to work overtime. The court ruled that a worker could not refuse a request to do overtime so long as the request was reasonable and the worker covered by an overtime agreement between his employer and his union.

One in five Japanese works more than five days a week, many of them working at least one Saturday a month, although the trend is towards less weekend working. Employers offer, on average, 15 days holiday a year, but the average Japanese worker takes only half this entitlement.

Hideki Harada worked 2,972 hours in the year before he died, including 1,004 hours overtime. The longest break he had in his 11-year working life was eight days. His last holiday was in December 1989 when he took four days off to get married.

"Hideki regularly worked until 11pm after starting at around 8.45am. Sometimes he was in the office until 1am and even later. He often used to sleep overnight in the office," says his father.

A government survey published last month showed that more Japanese want to work fewer hours. The poll, carried out by the prime minister's office, showed that 41.3 per cent of Japanese wanted shorter working hours even if it meant a drop in income, compared with 26.3 per cent in 1986. Some unions are campaigning for shorter hours and restrictions on overtime, although increasing wages has been a greater priority.

"They are more concerned with money and campaigning for bonuses," says Mr Shinsuke Miyano, national secretary of the Japan Federation of Newspaper Workers Unions. "But working hours is the single most important issue for unions right now especially given the national labour shortage and the pressures to work even harder."

Employers say it is up to workers themselves to drop out of the race if they find it too tough. But unions and *karoshi* lawyers say that competitive pressures between workers coupled with the demands of employers make it virtually impossible for employees to reduce their hours and take time off.

Sheila Jones

Change of gear

Continued from facing page

Y12.5bn on sales of Y470bn, set up its latest factory, in China, during 1990. But it now regards its expansion programme as substantially complete.

"Our overseas strategy has reached fulfilment," says Mr Shigeo Aizawa, a senior manager. "Now we need to develop within the existing companies." This includes Japan where it has been adding staff.

One question is to what extent governments in the region will want to foster home-grown companies in other consumer sectors such as motor car plants.

There is, however, no immediate indication that they will consign future Japanese involvement to a minority equity or operational role. On the contrary, the Japan External Trade Organisation (Jetro) detects a continued trend toward deregulation, under which wholly-owned investments have become possible in most sectors in most countries.

Protection continues for certain industries deemed to be strategic, although officials in Tokyo welcome recent moves by Indonesia to trim its "regulated list" of restricted industries, and an easing by the Philippines of its 40 per cent ceiling on foreign stakes in ventures.

The generally more liberal attitude may in part reflect a recognition by those administrations that – as the increasing wealth of their own populations fuels demand for Japanese-made consumer goods - local production by Japanese industry would help restore a regional trade balance.

Mr C. Kikutani, Jetro director for Asia-Oceania, says: "In the beginning, just labour-intensive companies went to south-east Asia. This is changing. There's a big market out there." These opportunities – plus their attendant problems – are best seen in Singapore, the most economically advanced of the Asean six. Although wages there are substantially lower than in Japan, they compare well with the rest of the region and the labour market is as tight, with barely 2 per cent unemployment in both countries.

Singaporean officials admit freely that they are no longer marketing the island as a low-cost destination. Rather, given its available skills and infrastructure, they are offering it to Japanese industry as a regional hub from which to administer plants and as a site to produce key components.

A survey of more than 9,000 companies last year by the Asean Promotion Centre, an organisation majority-funded by the Japanese government, found that low labour costs were still the prime motivation for setting up in that region as well as in South Korea, Taiwan, Hong Kong and China. But Singapore joined Australia as an exception – in each case, development of the local market was the main stimulus.

When asked about problems they encountered, the main complaint had nothing to do with the business environment in those countries – it was in finding Japanese to post there.

Power shifts away from the bosses, writes Steven Butler

Vehicle makers slow down

AUTOMOBILES

EARLY THIS YEAR, Toyota Motor figured it would need to hire 7,000 new workers by 1993. It knew that was impossible. So it halved the target for hiring, and decided to buy a lot of machines instead.

Yet even this scaled-back plan has run into trouble. In order to achieve its goal of reducing working time by 100 hours a year for the next three years – in itself an indispensible measure to retain and attract workers – Toyota has had to scale back production, by 150,000 vehicles this year. After achieving a 5 per cent annual increase in productivity year after year, last year Toyota's productivity stood still.

These are only small examples of the way that Japan's labour shortage is forcing tough decisions on vehicle makers. The shortage has also begun to call into question some of the fundamental management principles that underpinned Japan's fantastic international success in the industry.

That success rested to no small degree on having a stable, loyal workforce that could be relied upon to assume responsbility and take initiative to solve production problems. Now the car companies have to contend with the fact that workers have choices. Loyalty is no longer automatic, and the companies are being forced to sweeten employment packages by shortening hours of work and adding fringe benefits.

The problem of attracting workers is particularly severe for Toyota. Its plants are located in Toyota City, a satellite of Nagoya where there are few amenities and a problem of "yome buzoku" – a severe shortage of young women for male workers who want to get married.

It is too early even to ask whether the companies will lose their competitive edge. Certainly they will not. And yet, all of the management and engineering resources of companies such as Toyota and Nissan will be tested to the full in the years ahead, when recruiting and retaining workers promises to become progressively more difficult.

"The labour shortage will have an especially hard impact on the Japanese automobile industry," says Mr Hiroshi Moriyama, general manager of personnel at Nissan. The problem is not just that few people are entering the labour force. "Now that Japan has become a rich country the younger generation has a tendency to shun work that is dirty, difficult or dangerous," he says.

Unfortunately, work on an automobile production line is precisely that. Although Japanese car manufacturers have introduced robots and other sophisticated machinery for fabrication of many parts and components, the final assembly line itself is stubbornly resistant to automation. This is because men are far more flexible than robots.

Many of the assembly jobs are physically awkward for machines, and men can more easily install a range of components that allow Japanese companies to offer their famed variety of specifications within model ranges.

"The slowing of the economy has been a blessing for us in some respects," admits Mr Toshihiro Takahashi, general manager of human resources at Toyota. It has been a blessing because the demand for cars has slowed down, making it possible for Toyota to supply enough cars to the market without sacrificing production standards.

Mr Takahashi fears that when demand picks up again, possibly next year, Toyota may find it necessary to cut back temporarily on specifications offered to customers in order to lift the volume of production. In the longer run, Mr Takahashi is confident that Toyota will raise the level of automation without sacrificing flexibility.

Toyota has an in-house goal of lifting the level of automation in final assembly from about five per cent today to 15 per cent, although not all Toyota engineers agree that it is possible. Nissan has set in motion plans to lift its level of automation to 20 per cent, and is looking eventually at reaching 40 per cent.

Unfortunately, even if these levels of automation turn out to be practical, the complexity of the equipment and the assembly process mean that quality control would be put at risk by introducing a large amount of machinery quickly.

Mr Moriyama admits that Toyota has taken the lead in engineering technology. He says that when Nissan engineers took apart Toyota's newest model of the best-selling Corolla, they discovered a number of design features that saved steps during assembly. "There are a lot of improvements that can be made by better cooperation between production engineers and design engineers," he says.

Toyota's new Corolla broke the mould for Japanese cars in another respect. Sales of the car have been sluggish, defying the accepted wisdom that new models always generate a surge of sales in Japan. Nissan says sales of its new Bluebird model have been good, but not what it may have expected.

Mr Moriyama says one lesson may be that popular family cars have lost their novelty appeal. This could, he suggests, give Japanese car markers the opportunity to extend the model cycle for some cars beyond the current four years and thus save in the labour intensive process of changing models. Beyond this, both Toyota and Nissan are setting up facilities in Kyushu, in the south of Japan, where the labour shortage is less severe. Future expansions to capacity are almost certain to be overseas rather than at home.

The two companies have instituted programmes to bring back retired workers to the production line, although so far few have accepted the offer. Next year, Toyota plans to hire 150 women to work on the production line for the first time, and to add 200 more each year. Toyota did not hire women in the past in part because they are forbidden under Japanese law from working night shifts.

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TV makers boost low-cost production sites, writes **Gordon Cramb**

On the Ho Chi Minh trail

"MADE IN Vietnam" is about to become the latest badge to be seen on Japanese-brand consumer electronics goods. Last month, JVC announced that it was setting up a joint venture plant to produce colour television sets in Ho Chi Minh City.

The move extends a search for low-wage destinations, and easier access to markets.

The Vietnamese televisions will be destined mainly for export to south-east Asian countries, with most parts supplied by JVC's existing plant in Thailand, which puts out 1.2m finished sets a year and is reaching capacity.

As televisions are a replacement market in the industrialised world, manufacturers aim to spark demand through innovation. Developing countries with a state broadcasting service are still a big source of first-time purchases.

To cover this spectrum, leading producers have long had TV factories dotted across south-east Asia as well as in *Europe and the Americas.* Toshiba has been making complete sets in Singapore since 1983, only two years after it began wholly-owned production in the UK. But does its global workforce match its ambitions for a global product? And do their ways of operating match the ambitions of the countries which play host to them?

On the production line itself there seems to be least contention. Japanese electronics multinationals generally pay above the local going rate to secure committed employees from whom, at the same time, they expect high quality.

Reward and incentive schemes recognise those sort of achievements. Four women shop-floor workers from South Wales were in Japan this month on an expenses-paid trip earned by winning the annual quality circle competition at the Cardiff plant of Panasonic, part of Matsushita Electric Industrial.

Mr David Fowler, personnel director in Cardiff, espousing a Matsushita philosophy, says of his staff: "We want them to take ownership of whatever job they do." The plant has a single-union agreement, with the General Municipal and Boilermakers Union, and, although it has no formal no-strike agreement, has never had a stoppage. The GMB officials "know what our business plans are. We deal with them as with any supplier".

A recent company survey of the 2,000 Cardiff employees showed that most valued job security above wages or conditions – not in itself surprising given high Welsh unemployment levels – but also that a substantial and increasing number saw Matsushita Electric UK (Meluk) primarily as a British or European rather than Japanese employer.

That finding is welcomed at the parent's Osaka headquarters where Mr Hisaki Maeda, a senior personnel manager, says: "We are pleased to hear that more UK personnel see Meluk as an English corporation. What Matsushita *is doing* is transferring its knowhow and production technology."

But Japan's electronics groups say they must address two more issues in order to assume the quasi-indigenous status of Ford of Europe: local management must progressively replace expatriate Japanese; and local facilities must increase their added value by expanding their own development and design staff.

There are continuing moves on both fronts, although the pace has satisfied all concerned. Sony is said to have gone furthest down this road, and Japan hope that the trend will silence charges that their overseas plants, especially in Europe, are mere "screwdriver" operations.

TELEVISION SETS

Mr Max Munday, of the Japanese management research unit at Cardiff Business School, says that Japanese companies take things gradually but that "once local sourcing *has* developed, it *builds* up from there. Sony and Panasonic in Wales are not screwdriver plants."

In Osaka, Mr Maeda observes: "We want to have R&D facilities worldwide. We can't limit engineering activities to Japan because the number of engineers here itself is quite limited." As for management, he adds, "we have to achieve the goal in the near future that more local staff occupy *senior posts and run* the company rather than Japanese."

Officials in host countries welcome such intentions but note that they rarely come with specific targets or timeframe attached. Progress *through to management* inevitably trails last in the thinking of the Japanese electronics majors – as one south-east Asian diplomat puts it, "they recognise the need but until now they haven't laid the groundwork".

There is a strong appetite for local technical expertise in south-east *Asia* which the region is not yet able to meet. Thailand, for example, turns out only a few hundred engineering graduates a year.

As Singapore *has* the most advanced vocational training in the area, it boasts companies which on production-cost grounds might otherwise relocate. Toshiba stays in Singapore partly because of the available skills but also because it can draw on Malaysian migrant employees who, under the island state's regulations, may comprise up to 40 per cent of a manufacturer's workforce.

Indeed, such a system was hardly unknown to Toshiba when it set up there. Within Japan, nearly a fifth of the production line staff at its main TV plant are "seasonal" workers drawn from the country's own rural areas. Traditionally they came to seek work between harvests but, although some now stay all year round in company-subsidised rooms, they do not carry the same *lifetime employment* guarantees as their locally recruited colleagues.

Aside from increased automation, which is not significantly *more* in use *in* Japan than in parallel plants elsewhere, the use of seasonals is one of the ways in which big groups redress the domestic *labour shortage without* hugely inflating their costs. Two others are re-employing the recently retired and mothers of school children.

The other traditional method by which leading manufacturing companies in Japan hold down costs is by subcontracting basic tasks – such as mounting electronic components on the television set's printed circuit board. Under the Japanese system of dedicated suppliers, a significant part of the value of a branded product is routinely produced by third-line companies unknown to the consumer.

They pay lower wages than the famous companies, and usually use more seasonal workers and – though loth to admit it – often use foreign workers of dubious legal status. At Toshiba Mr Masayasu Toyohara, a deputy manager in the employment relations division, will say only that the company has repeatedly asked its suppliers to keep within the law. "If our suppliers have so much difficulty in recruiting, we advise them to go overseas to produce."

Greenfield ventures abroad do not come easily in a time when fund raising in Japan through debt or equity is uncommonly tight. But it is likely that the larger suppliers of components will be watching JVC's progress in Vietnam, in its link-up with a state-owned TV plant, almost as closely as its direct competitors when production starts in mid-1992.

The scope of automation is spreading, writes **Gordon Cramb**

Machines with human faces

THE YOUNG systems engineer from Komatsu nervously served the coffee. Professor Yukio Hasegawa of the systems science institute at Tokyo's Waseda University was holding forth about the human face of automation. "*Japanese people have some* feeling towards machines," he said.

For a nation which is the prime international purveyor of electronic equipment, and which houses half the world's industrial robots (producing Y516bn worth last year), the relationship is unarguably close.

The tight labour market is extending innovation in manufacturing procedures, but there is a resistance to change further down the line.

Younger Japanese increasingly see the price of some jobs as just too high. Prof Hasegawa's current research is in robotics for the construction industry which, though it still occupies some 10 per cent of the workforce, is showing acute shortages – unsurprisingly, as some 1,500 lose their lives on building sites each year, a third of all industrial fatalities.

He reels off a list of processes which, with more than 55 types of robot in prototype or recent production from companies like Shimizu, no longer need to be done manually.

The next stage, beginning at larger projects, is the linking of these into an integrated system in which local area network (LAN) computing ensures that, for instance, excavators and cranes work most efficiently and avoid collision.

Prospects for integration beyond that are less clear, governed as they are by numerous architectural variables and the innumerable topographical and geological differences between sites.

Indeed, a debate seems to be resurfacing within the robotics sector over how much further industrial automation can go without imposing an unacceptable restriction on flexibility.

The question is particularly pertinent in the production of higher-value consumer goods, where a large degree of differentiation has developed: a bewildering range of options is offered on a single product. In car making, flexible manufacturing systems combining arm-type robots and automated delivery of components (but with most tasks still requiring manual selection and installation) have allowed a single production line to handle different wheelbases and other specifications simultaneously.

Some argue that given existing technology, the process cannot be extended much further without an ultimate restriction of consumer choice. Toyota, with 5 per cent of its production line tasks currently automated, can if it wishes put one of more than a dozen types of steering wheel on to a single model. If it seeks the 20 per cent automation level attributed to Volkswagen, the provision of that many options ceases to be cost-effective, it is claimed.

ROBOTS

"The Japanese manufacturer must then give up making many different products in small quantities," says Mr Sukehiro Itoh, senior economist in the industry research department of Industrial Bank of Japan.

Prof Hasegawa sees such hindrances as short-term, and goes on to predict the reverse: an era of "individual mass production" now being studied by some makers of personal products, where modular mini-factories sited close to the consumer supply items such as spectacles and shoes on a one-off basis using automatic measuring, cutting and finishing machines.

"The future image of the production system is a very short lead-time and high flexibility," he says. Mr Kanji Yonemoto, vice chairman of the Japan Industrial Robot Association, is convinced that current developments in introducing intelligence functions into robot systems, allowing the machines to make judgments from what their sensors tell them, will help open the way.

Such conveniences may also assist in adjusting consumers to a service sector which, although adding jobs each year, may have to start using its employees more profitably.

In many cases, the difficulty lies not in the lifetime employment system – opportunities for redeploying such staff within each company generally abound – but in a perceived threat to the group's reputa*tion for quality of service.*

Department stores may ponder their current difficulties in attracting sales staff when many recruits have first to serve as "*elevator girls*" reciting wares to customers well able to select their own floor in the automatic lift. Downstream oil companies are struggling to keep filling station attendants, but only a minority of pumps are self-service.

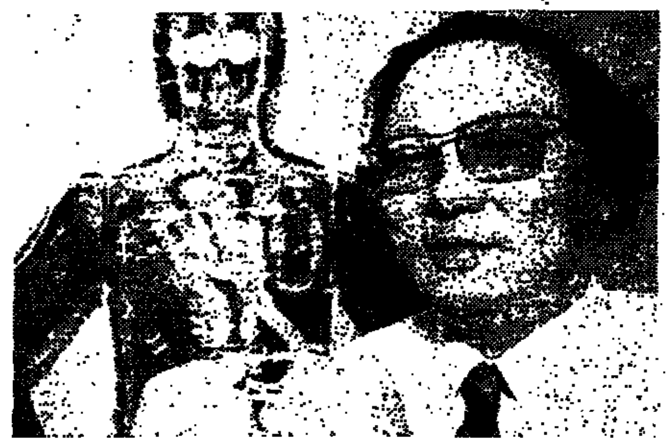
So far there are few signs of change, and those which are most noticeable appear *in* areas where redeployment options are narrower, or where efficiency is more important *than indulgence.*

In the past year, public and private sector railways have introduced more automatic ticket barriers for Tokyo com*muters.* The national Japan Railways network estimated last month that 29,000 of its 181,600 employees are superfluous.

And Toshiba, building from the country's familiarity with vending machines (Japan is said to have the highest number per capita) last month announced the development of a fault-tolerant device which can respond to spoken orders for, say, fast food, listening for *key words which match its* vocabulary.

As Mr Carl Aaron of James Capel Pacific, part of the *London* stockbroking firm, puts it: "Where *you* meet the *customer* will be the last area to be compromised."

Stores groups cosset the customer in the belief that he or she is likely to have escaped there during a break from a rigid and spartan office regime. The Japanese white-collar workplace has been traditionally *not only hierarchical* but cramped and immured in paperwork.



Tokyo scientist demonstrates muscles for robots

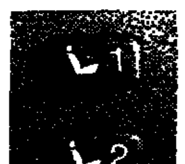
NEC, using its own Tokyo headquarters as a laboratory, created a system which links a personal computer (the screen of which can also relay television programmes or training videos) to a card swipe for security, a hand-held keypad for simple scrolling and selection, and a telephone with its own liquid crystal display.

In NEC's view, such technology can make the working environment more attractive even if an expanding company, beset by Japan's high urban property prices, cannot offer its staff much individual space.

For manufacturing, in spite *of a factory automation market* which Capel estimates will grow 12 per cent next year to Y2,900bn, some 85 per cent of Japanese companies have no *automated processes to speak* of. The figure, if nothing else, reflects the country's large number of medium and smaller businesses.

But the *shortfall in labour* availability for such "ordinary" companies helps explain why, although they are suffering in addition from a squeeze on bank lending and a dead market for share flotations, the manufacturing sector expects broadly to maintain its levels of new *capital* investment in labour-saving equipment in the fiscal year which ends next March.

THE STORY OF THE MEMORY THAT THINKS OF IT ALL.



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